Building an innovative nation
One entrepreneur at a time

ANNUAL REPORT 2011

BDC
Entrepreneurs first

Canada

WHO WE ARE

The Business Development Bank of Canada (BDC) is a Crown corporation wholly owned by the Government of Canada. We are accountable to Parliament through the Minister of Industry.

WHAT WE DO

We promote entrepreneurship by providing financing, consulting and venture capital services to Canadian entrepreneurs, with a special focus on small and medium-sized enterprises.

WHY WE DO IT

When they succed, entrepreneurs make an irreplaceable contribution to Canada's economy. Supporting them is in our national interest.

DO.
DISCOVER.
DECIDE.
INNOVATE.

"I've gone from fear and trepidation about technology to embracing it. If we hadn't made this investment, our growth would not have happened."

DO.

Buy a computer system that offers clients real-time shipment tracking, automates handling and trims costs.

DISCOVER.

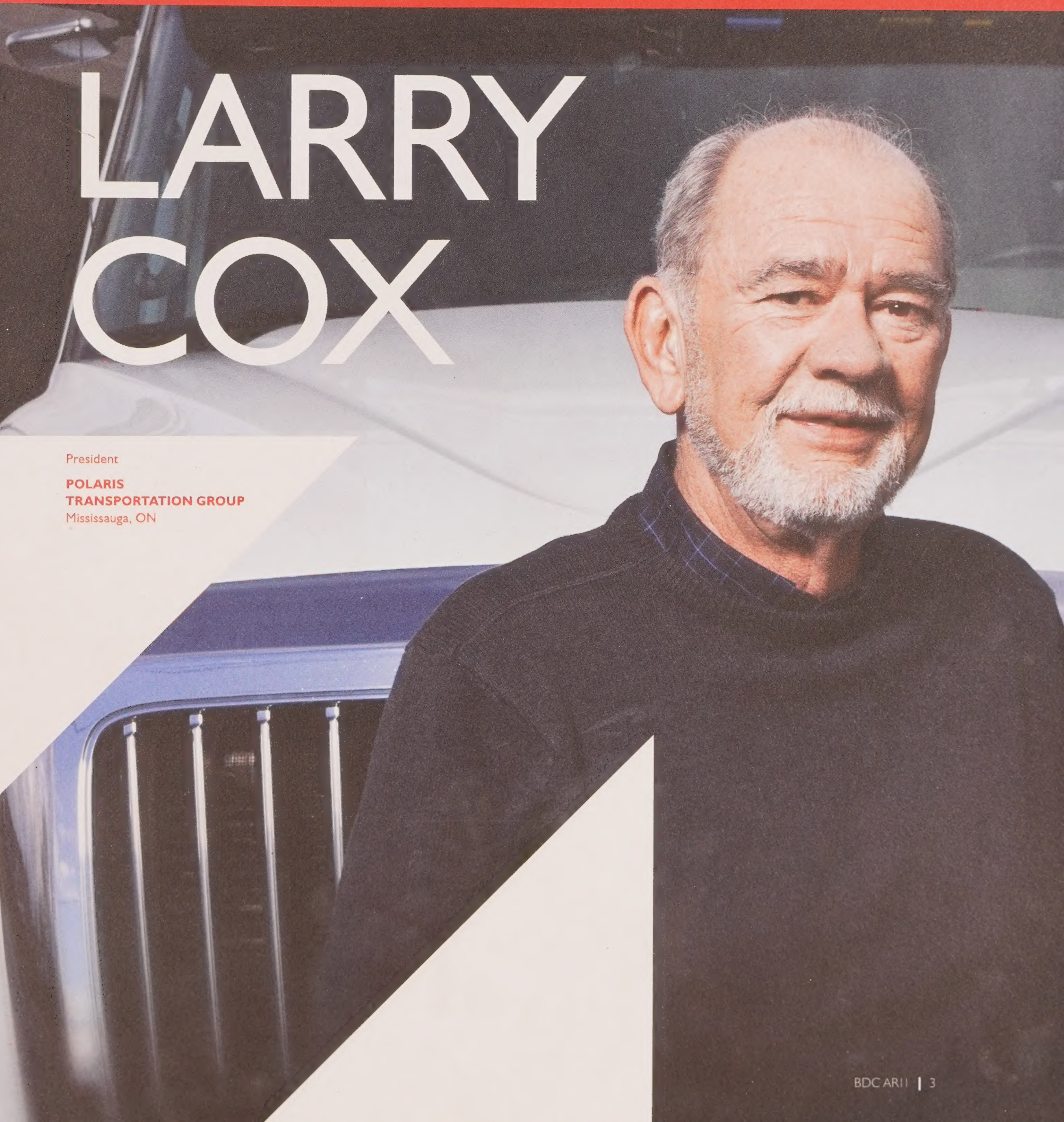
My clients want real-time tracking of shipments. My company can be more efficient.

DECIDE.

INNOVATE.

RESULT:

TRIPLED SALES.
A COMPANY TRANSFORMED.



LARRY COX

President

POLARIS TRANSPORTATION GROUP
Mississauga, ON

"By offering custom-made products and full service, we set ourselves apart from our competitors."

DO.

Collaborate with engineers to design better boilers. Change the business model to offer clients design, installation, maintenance and repairs.

DISCOVER.

Our clients want industrial boilers that are energy efficient and custom made.

DECIDE.

INNOVATE.

RESULT:

THEIR 30-YEAR-OLD COMPANY HAS RENEWED VIGOUR AND GROWTH.

MAUD & NANCY SIMONEAU

Maud Simoneau
Director of Operations

Nancy Simoneau
President

GROUPE SIMONEAU
Boucherville, QC

"We're driving a whole new frontier of knowledge. Computers can be and do so much more than they are doing now."

DO.

Design, make and sell quantum computers.

DISCOVER.

My clients—large organizations with highly complex computational problems to solve—will pay for more sophisticated and powerful computers.

DECIDE.

INNOVATE.

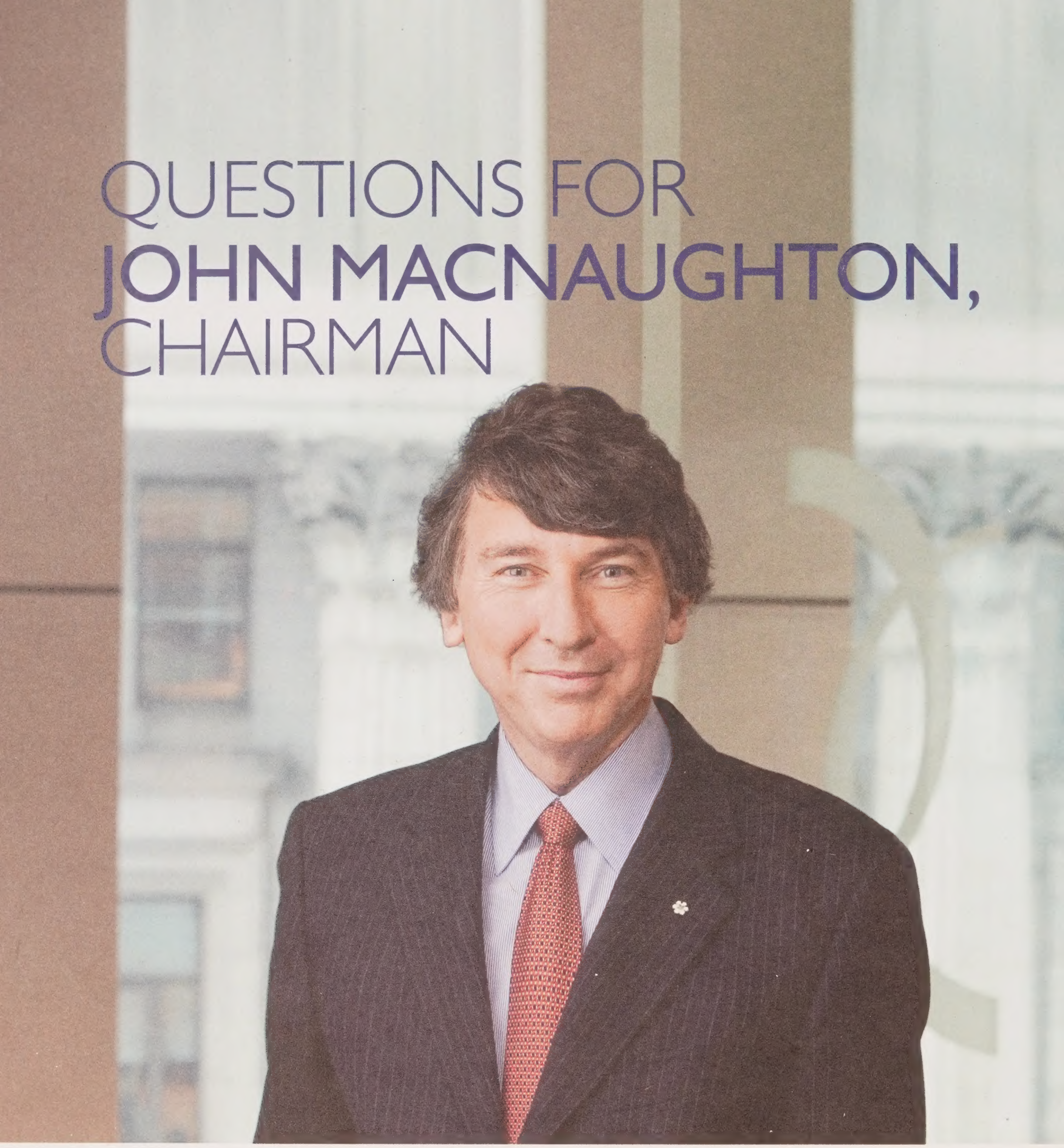
RESULT:
A GLOBALLY COMPETITIVE HIGH-TECH COMPANY

GEORDIE ROSE

Co-founder and
Chief Technology Officer

D-WAVE
Burnaby, BC

QUESTIONS FOR **JOHN MACNAUGHTON,** CHAIRMAN



WHY ARE ENTREPRENEURS IMPORTANT?

The answer is in the numbers. In Canada, 99.8% of firms are small or medium sized. They create over 60% of private sector jobs and are responsible for a third of exports.

WHAT IS THE COMPETITIVE ENVIRONMENT IN WHICH CANADA'S ENTREPRENEURS OPERATE?

They operate in a complex global marketplace full of threats and opportunities. They compete with ambitious, highly innovative domestic and foreign companies. Their foreign competitors are pursuing customers in Canada and often enjoy the direct support of their governments.

However, this setting also offers big opportunities. There are not only billions of consumers around the world, including those in emerging and developing markets, but also supply chains that provide multinational corporations with all sorts of products and services.

THE LEGISLATIVE REVIEW OF BDC HAS BEGUN. WHAT DOES IT INVOLVE?

Like many Crown corporations, BDC is subject to a regular legislative review of its principal statute, the *Business Development Bank of Canada Act* (the Act).

This review happens at 10-year intervals. It is an opportunity for the Minister of Industry, in consultation with the Minister of Finance, to examine the provisions of the Act to determine if they are still appropriate for the support BDC is to provide to entrepreneurs.

The review began in autumn 2010 with the release of a BDC document, *Building an Innovative Nation, One Entrepreneur at a Time*, now available at www.bdc.ca. This was followed by hearings by the Senate Standing Committee on Banking, Trade and Commerce; transcripts and the resulting report are posted at www.sen.parl.gc.ca.

THE BDC BOARD OF DIRECTORS RECENTLY APPROVED A STRATEGIC REVIEW OF BDC VENTURE CAPITAL. WHY?

BDC thoroughly analyzed Canada's venture capital industry and conducted a strategic review of its own venture capital operations.

The conclusions of the analysis were sobering. The industry is afflicted by an array of difficulties rooted in something deeper than normal market swings. Scarce capital is a challenge, but it's not the only one. Canada lacks sufficient serial technology entrepreneurs, experienced angel investors and appropriately sized venture capital funds managed by experienced, globally connected professionals.

Overall, the industry has been trapped in a vicious circle of poor returns, small fund investments, sometimes-dysfunctional syndicates and a resulting reluctance by institutional investors to participate in the asset class. To reverse this situation, investor faith must be restored. This requires the industry to return to profitability.

To achieve this end, Canada needs to foster the emergence of large, skilled general partnerships. BDC will support this goal with a new, four-pronged strategy, outlined at www.bdc.ca.

BDC'S ACTIVITIES ARE SUPPOSED TO BE "COMPLEMENTARY" TO THOSE OF PRIVATE SECTOR FINANCIAL INSTITUTIONS. WHAT DOES THIS MEAN?

BDC's mandate is to promote entrepreneurship, with a special focus on small and medium-sized enterprises. "Complementary" refers to the way BDC accomplishes this task.

In creating and growing companies, entrepreneurs take risks. Gaps in financial services make these challenges harder to overcome. The Act mandates BDC to support entrepreneurs with loans, investments and guarantees that are to fill out or complete the services available from commercial financial institutions.

Finance sector gaps vary in nature, over time and by place. Accordingly, the Act does not limit BDC to a single or unchanging definition of complementarity. That would hamstring BDC's ability to offer the variety of services entrepreneurs need, including those that did not exist when legislators passed the law. The Act allows BDC to be flexible.

Complementarity is an operational mode designed to permit BDC to be flexible in its support for entrepreneurs, while respecting the central role played by the private sector.

WHAT IS AN EXAMPLE OF A GAP?

Private sector lenders are often reluctant to finance entrepreneurial projects that they judge to be too risky. BDC has honed its expertise in evaluating risk so that it can finance riskier projects. One can see this higher appetite for risk in BDC's allowance for credit losses rate, which is substantially higher than that of private sector financial institutions.

Because BDC prices for this risk to protect its investment, clients pay more. But the result is a three-way win. Entrepreneurs get the financing they need, communities large and small benefit from the business venture and Canadians' investment in BDC is protected.

A vivid example of complementarity was evident during the recent credit crisis. When private sector lenders tightened their credit requirements, BDC helped fill the gap by lending more than it had at any other point in its history. In contrast, this past year saw an increase in the amount of capital that private sector lenders made available to borrowers and a decline in the volume of BDC's loans.

WHAT ARE THE CHALLENGES AHEAD?

Entrepreneurs have to increase their competitiveness. They must make innovation a central part of their business strategy and include in their plans specific actions such as greater use of information and communications technologies. They should also explore opportunities to enter new domestic and international markets.

ANY FINAL WORD?

Thank you to Henry K.S. Lee of Vancouver and Roger Demers of Quebec City for serving Canadians as members of BDC's board of directors. Best wishes.

I would also like to thank my fellow board members for their valued support and dedication to BDC.

On behalf of our board of directors, thank you to the senior management team and all BDC employees for their rigour and professionalism.

John A. MacNaughton
Chairman

QUESTIONS FOR **JEAN-RENÉ HALDE,** PRESIDENT AND CEO

THE ECONOMIC RECOVERY HAS BEEN TENTATIVE. HOW IS BDC SUPPORTING ITS CLIENTS?

Very ably, I believe, with patient financing and advice to help them succeed.

Recall that at the height of the recession in 2009, we allowed thousands of clients to suspend their principal payments if doing so would help see them through the dry period. This past year, we offered a pre-approved Economic Recovery Loan, intended to help clients kick start their success in a post-recession economy.

We did this because entrepreneurs told us that they were shifting their operational priorities from recession to recovery but were worried about a lack of capital to finance day-to-day activities or longer term, strategic projects. The loan was a runaway success: more than 3,700 clients said yes.

THE FLOW OF PRIVATE SECTOR CREDIT TO ENTREPRENEURS HAS BEGUN TO RETURN TO NORMAL. WHAT DOES THIS MEAN FOR BDC?

Yes, private sector financial institutions have more liquidity available for small business financing. This means we did fewer deals this year than last year, when the economic crisis was at its most severe.

This decline is to be expected, given our complementary mode of operation.

WHAT BIG, LONG-TERM CHALLENGES ARE ENTREPRENEURS FACING?

Their basic challenges remain the same. Find the right idea for a business. Gather the right people, know-how and financing to make the business succeed. Then navigate the well-known hurdles: shifting consumer preferences and market demands, sometimes-difficult access to credit, fluctuating exchange rates, demographic trends that make it hard to find qualified employees...the list is not short!

Another challenge is finding the strategic decisiveness to invest in the competitiveness of their businesses. For example, information and communications technologies are ubiquitous features of our time, yet too few Canadian entrepreneurs use them as much as they should—and are less competitive as a result.

For most of our firms, there are worlds of potential growth in Canada. But they are competing with other highly motivated, innovative businesspeople, including foreign competitors who are pursuing customers here on our home turf.

There are also worlds of opportunity in the millions of consumers and thousands of multinational corporate supply chains around the world.

WHAT MUST THEY DO TO MEET THESE CHALLENGES?

I believe the way to meet them is by innovating—constantly trying new, creative ways of doing things to make incremental improvements of many kinds. It can take many forms: use of technology, a new business grown from an improvement to an existing product or new business models.

When we think about innovation, we have to think broadly and comprehensively. It takes decisiveness, a keen sense of market demand and a business strategy defined by constant adaptation.

At BDC, we see entrepreneurs who are innovating in this way, and I believe these men and women can propel Canada's competitiveness. Our job is to help them, one entrepreneur at a time.

WHAT ARE THE CHALLENGES IN FRONT OF ENTREPRENEURS WHO CREATE HIGH-TECH COMPANIES?

This smaller group of entrepreneurs also faces a daunting to-do list: find a new tech product or service that people will be willing to pay for, rather than something we find attractive that we hope or assume consumers will want. Find financing, expertise, mentoring and networks in an ecosystem that is not flush with any of these things. And find a way to cross the infamous "Valley of Death": the time between the point at which public support for research and development ends and the point when private sector support typically enters.

In sum, the commercialization phase is very difficult.

As John MacNaughton has pointed out, the best way for BDC to contribute is to help return Canada's venture capital industry to profitability, thereby drawing investors back to the asset class. I am encouraged by what I see: more angel investments, more serial entrepreneurs every year, recognition of what constitutes a good general partnership (GP) to invest in and expertise shown by a number of GPs. Plus, we have seen some good exits lately.

DID BDC REMAIN COMMERCIALLY VIABLE OVER THE PAST YEAR?

Yes, we made a profit of $347 million. We're satisfied to have achieved another year of commercial viability, but delighted with what this profitability tells us about the rising financial health of our clients and Canada's economy.

When our clients' financial health improves, we reduce the amount of money we must set aside for potential losses. The reduction in the provision for credit losses increases the profit we report—indeed, close to half of the increase in our profit is attributable to this. We can also point to improved results from our venture capital business line, growth in our financing portfolio and income generated from securitization.

So the fundamental good news is that our clients' financial positions have improved since last year.

Since 1997, we have paid a total of $180 million in cumulative dividends to our shareholder, the Government of Canada. This year we will also pay a dividend of $50 million.

WHAT ARE THE CHALLENGES AHEAD FOR BDC?

The top-line challenge is convincing entrepreneurs to make the tough investment decisions needed to ensure their firms innovate to stay competitive and productive in the future.

For us, the central challenge remains providing our clients with the best, most effective support possible. This kind of service is contingent on several things, but one of the biggest related challenges is our ability to attract and keep the talented professionals we need to do the job.

ANY CLOSING WORDS?

Yes, a big thank you to the board and my management colleagues. Their guidance and support have been invaluable.

And a big thank you to BDC employees. The past year was another tough one, and they—once again—showed themselves to be hardworking and resilient, just like our clients.

Jean-René Halde
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING STATEMENTS

BDC regularly makes written and oral forward-looking statements in its annual report, in press releases and in other communications. These forward-looking statements include statements about objectives and strategies for achieving objectives, as well as statements about outlooks, plans, expectations, anticipations, estimates and intentions.

By their very nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. These uncertainties give rise to the possibility that predictions, forecasts, projections and other elements of forward-looking statements will not be achieved. A number of important factors could cause actual results to differ materially from the expectations expressed. These factors include credit, market, operational and other risks identified and discussed in the risk management section; interest rate fluctuations; opportunities to complete successful divestitures of investments; and changes in accounting standards, policies and estimates.

ROLE AND ACTIVITIES

1,950 EMPLOYEES

102 LOCATIONS ACROSS CANADA

5 BUSINESS LINES:

FINANCING; SUBORDINATE FINANCING;
VENTURE CAPITAL;
CONSULTING; SECURITIZATION

MANDATE:
SUPPORT CANADIAN ENTREPRENEURS

WE ARE CANADA'S BUSINESS DEVELOPMENT BANK.

ENTREPRENEURS FIRST.

OUR ROLE

In 1995, Parliament passed the *Business Development Bank of Canada Act*. The Act mandated BDC to promote entrepreneurship, with a special focus on the needs of small and medium-sized enterprises (SMEs).

WE TAKE RISK TO SUPPORT ENTREPRENEURS

We support projects that are creditworthy but, in general, riskier than the ones that private sector financial institutions typically accept.

Higher risk groups include fast growth firms, exporters, innovators and firms in cyclical sectors. They also include emerging sectors such as knowledge based industries. Examples of higher risk projects include R&D commercialization and investments in intangible assets.

Our willingness to take more risk means entrepreneurs have more choice and opportunities to get financing and grow their businesses.

When entrepreneurs succeed, the rewards for Canada are many. When they start businesses and innovate, the national economy benefits.

OUR ALLOWANCE FOR CREDIT LOSSES RATE IS AT LEAST

5X

GREATER THAN THAT OF PRIVATE SECTOR FINANCIAL INSTITUTIONS.[1]

(1) This rate is a calculation based on the total allowances for credit losses at BDC and the average of the major Canadian chartered banks, as per their annual reports.

OUR LEVEL OF ALLOWANCE FOR CREDIT LOSSES REFLECTS THE HIGHER RISK WE TAKE.

Of course, not all business projects succeed. A certain percentage of loans are expected to become impaired. The allowance for credit losses represents our best estimate of probable losses in the financing portfolio. The allowance is adjusted by an annual provision for credit losses charged to net income.

COMPLEMENTARY = RESPONSIVE WE EVOLVE WITH MARKET NEEDS

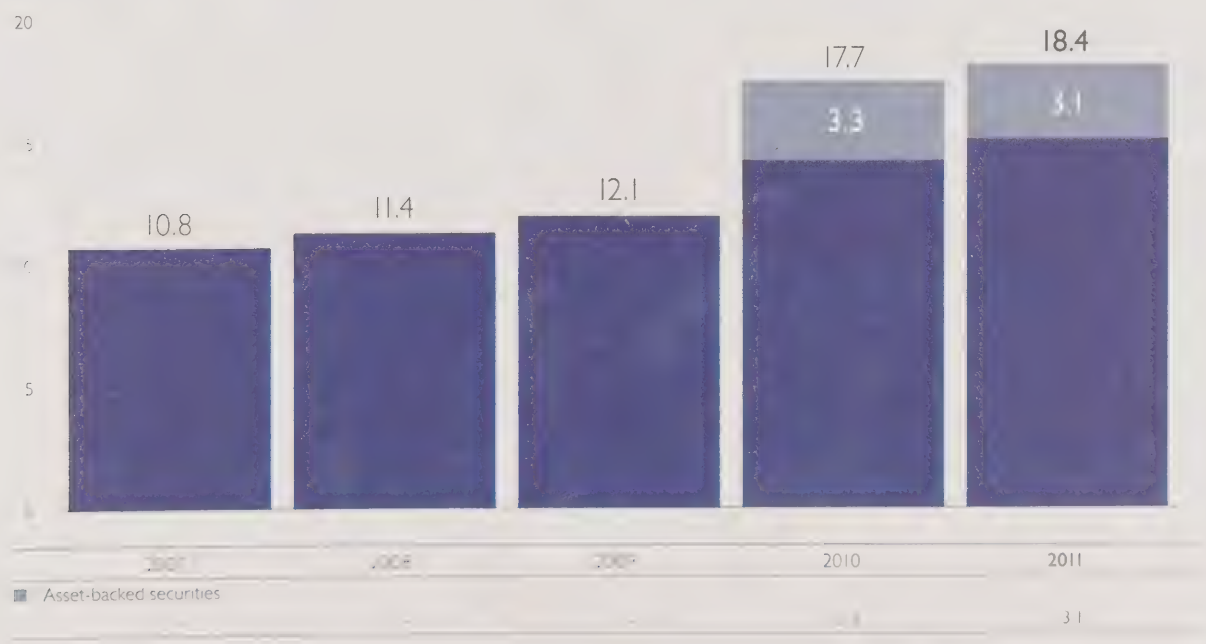
The largest asset on BDC's balance sheet is the loan portfolio. This portfolio has been growing as a result of the strong demand for BDC Financing services during the economic downturn and recovery.

Since fiscal 2010, another important asset has been the asset-backed securities portfolio. In 2009, at the request of the Government of Canada, BDC created the Canadian Secured Credit Facility (CSCF). The goal was to recreate a market for auto and equipment loans and lease securitization by buying Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floor plans. Specifically, the goal was to increase liquidity in the market and to augment investor confidence in these types of asset-backed securities.

There are signs of growing private sector market demand for asset-backed securities. The purchase of asset-backed securities under the CSCF ended on March 31, 2010. As can be seen below, the CSCF portion of BDC's total assets has begun its planned decline.

Total Assets – BDC

as at March 31 ($ in billions)



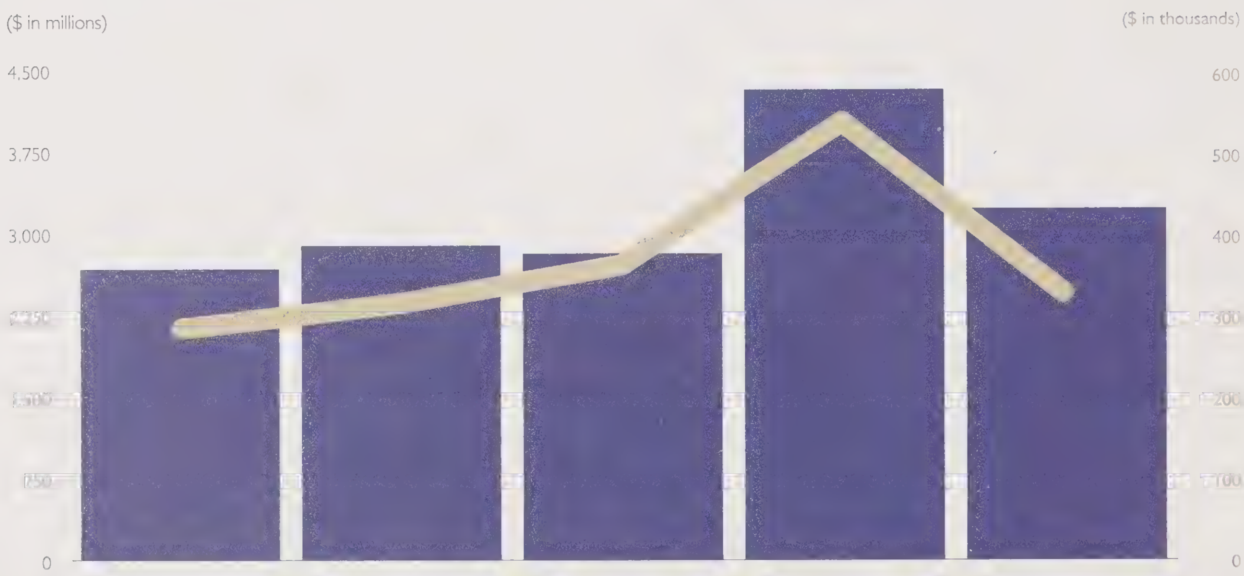
WE SUPPORT ENTREPRENEURS

THE PRIVATE SECTOR IS NOW PROVIDING MORE CREDIT.

OUR YEARLY LENDING ACTIVITY HAS RETURNED TO PRE-RECESSION LEVELS DUE TO MORE LIQUIDITY IN THE MARKET.

Acceptances, BDC Financing

for the years ended March 31



Acceptances	2007	2008	2009	2010	**2011**
■ Amount ($ in millions)	2,692	2,907	2,832	4,343	**3,245**
Average transaction size ($ in thousands)	287	318	365	542	**331**

THIS LOWER LEVEL OF ACTIVITY PRODUCED A LOWER LEVEL OF PORTFOLIO GROWTH.

Loans Outstanding, BDC Financing

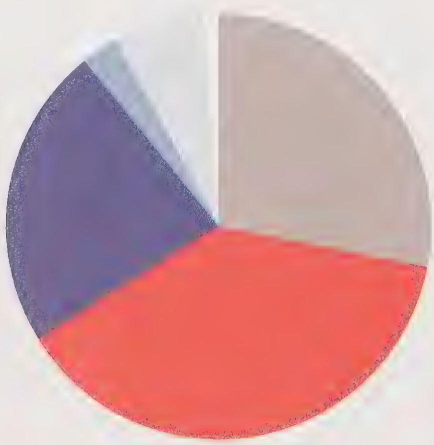
As at March 31 ($ in millions)

2007	2008	2009	2010	2011
[illegible]	10,014	11,117	13,311	14,506

WE SUPPORT ENTREPRENEURS FOR DIFFERENT PURPOSES, SUCH AS BOOSTING THEIR COMPETITIVE POSITION DURING THE ECONOMIC RECOVERY.

BDC Financing, by Primary Loan Purpose

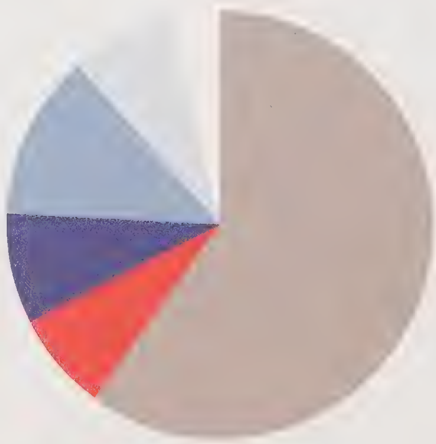
for the year ended March 31, 2011 (number of acceptances)



Fixed assets	2,774
Working capital–Economic recovery loans	3,722
Working capital–Other	2,254
Refinancing	281
Change of ownership	666
Other	98
Total	**9,795**

BDC Financing, by Primary Loan Purpose

for the year ended March 31, 2011 (acceptances, $ in millions)

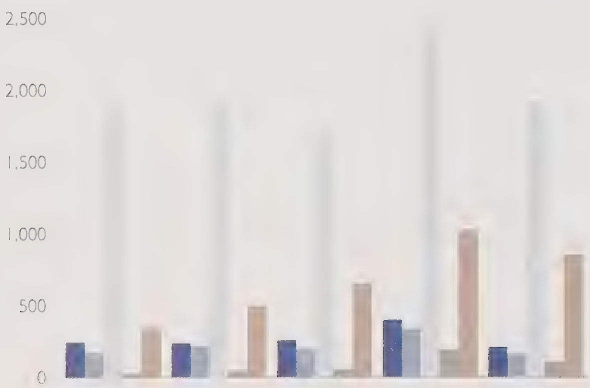


Fixed assets	1,953
Working capital–Economic recovery loans	246
Working capital–Other	263
Refinancing	408
Change of ownership	252
Other	123
Total	**3,245**

WE SUPPORT ENTREPRENEURS AT EVERY STAGE OF THEIR BUSINESS.

BDC Financing, by Stage of Development

for the years ended March 31 ($ in millions)



Acceptances	2007	2008	2009	2010	**2011**
Start-up	242	234	253	395	**205**
Development	171	216	197	335	**160**
Expansion	1,906	1,913	1,674	2,396	**1,919**
Turnaround	27	46	55	192	**107**
Mature	346	498	653	1,025	**854**
Total	2,692	2,907	2,832	4,343	**3,245**

WE SUPPORT ENTREPRENEURS WHO WANT TO GROW THEIR BUSINESS.

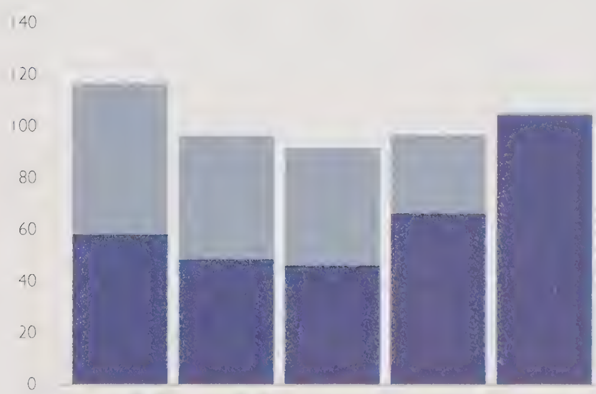
For entrepreneurs who need capital to grow but don't have the tangible security that conventional lenders need, we offer a hybrid of debt and equity financing called subordinate financing.

Subordinate financing is also sought by entrepreneurs who do not want to dilute their ownership of their firm because they need money to grow.

We previously offered this service through partnership funds with the Caisse de dépôt et placement du Québec (the Caisse). As these funds were fully committed, BDC began funding subordinate financing transactions on its own.

BDC Subordinate Financing

for the years ended March 31 ($ in millions)



Acceptances	2007	2008	2009	2010	**2011**
BDC portion	58.4	48.7	46.3	66.7	**105.1**
Caisse portion	59.4	48.7	46.3	31.0	**1.4**
Total	117.8	97.4	92.6	97.7	**106.5**

WE HELP ENTREPRENEURS BECOME MORE COMPETITIVE.

It takes skill and know-how to stay ahead of competitors. We offer entrepreneurs tailored, high-quality consulting services at a price they can afford. Our goal is to help them improve the management of their business and become more competitive.

Although entrepreneurs are generally optimistic about the future, they are worried about a lack of capital to invest in longer term, strategic projects. We see this reflected in a reticence to invest in consulting services.

We also support other organizations' programs to provide classroom training, mentorship and networking opportunities for entrepreneurs, notably programs that help them develop sales and marketing to penetrate global markets.

WE HELP BUILD THE FIRMS THAT COMMERCIALIZE THE FRUITS OF R&D

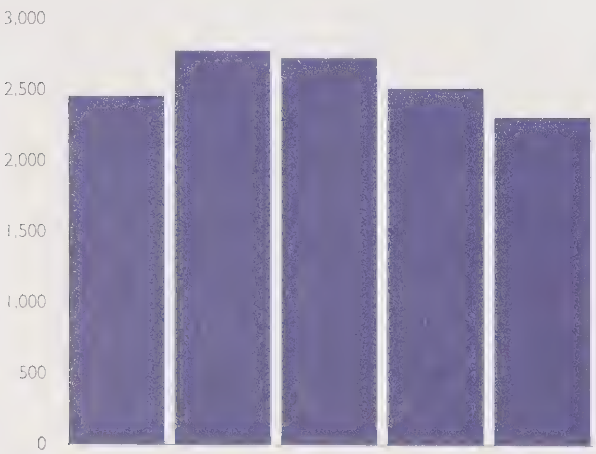
Canada needs entrepreneurs to turn the technologies that spring from R&D, much of it government funded, into products and services that people around the world want to buy. The risk is very high. Entrepreneurs who do it need support.

The VC industry has been struggling for more than a decade with a host of problems. Its dysfunction has hampered these entrepreneurs' contribution to Canada's prosperity.

However, as we look to the future, we see grounds for optimism. And based on a thorough analysis of the industry and our operations, we have refined our strategy, organizational structure and market approach. This new blueprint plots our contribution to helping the industry meet the many structural challenges it faces. For full details, read the *Venture Capital Industry Review* at www.bdc.ca.

BDC Consulting Mandates

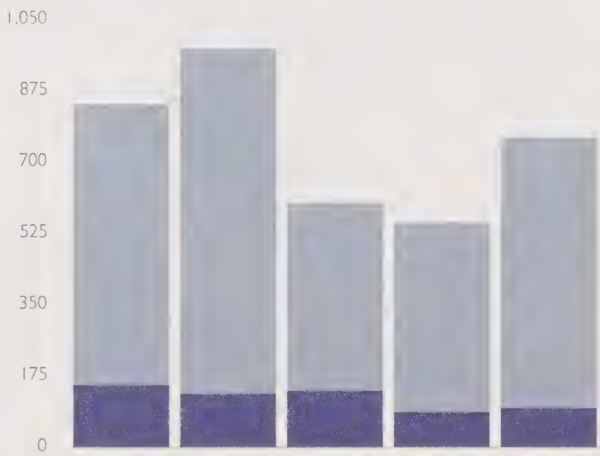
for the years ended March 31 (in numbers)



2007	2008	2009	2010	**2011**
2,451	2,770	2,720	2,504	**2,300**

Total Value of Venture Capital Authorizations in Which BDC is a Partner

for the years ended March 31 ($ in millions)



	2007	2008	2009	2010	**2011**
BDC Venture Capital	151	130	137	85	**95**
Other sources	690	848	462	467	**666**
Total project value	841	978	599	552	**761**

THIS YEAR, WE AUTHORIZED $60 MILLION IN DIRECT INVESTMENTS AND $35.3 MILLION IN FUNDS TOTALLING $95.3 MILLION.

In fiscal 2011, BDC invested considerable energy and resources in conducting a strategic review, making organizational changes and refining its market approach. It is confident in the direction of its new strategy and the future of the market.

Market conditions remain difficult, but activities rose in the latter part of the year.

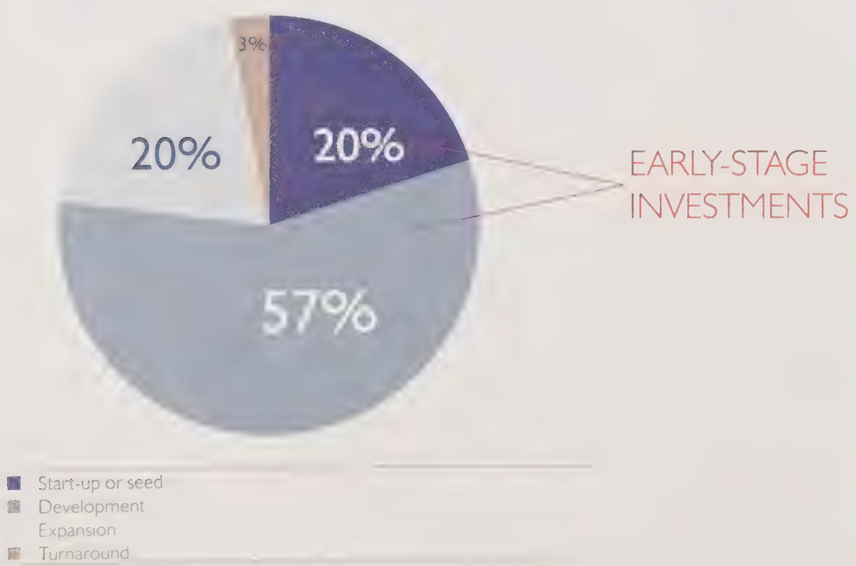
BDC SECURITIZATION

BDC Securitization is a business created in 2009 as part of the Government of Canada's Economic Action Plan. It resulted from the purchase of asset-backed securities under the Canadian Secured Credit Facility (CSCF).

While the CSCF was important in helping re-establish the public term securitization market, its scope was limited to larger transactions. To help bridge the gap facing small and medium-sized financing and leasing companies, BDC established a new securitization program in partnership with TAO Asset Management Inc.: the Multi Seller Platform for Small Originators (MSPSO). This initiative is part of the Vehicle and Equipment Financing Partnership announced by the federal government in 2010.

In fiscal 2011, BDC authorized $150 million under the MSPSO. The first disbursement happened in April 2011.

BDC Venture Capital Direct Investments Authorized, by Stage of Development
for the year ended March 31, 2011 (percentage of dollar value)



WE PROMOTE ENTREPRENEURSHIP

By championing Canadian entrepreneurship, BDC promotes an entrepreneurial culture and supports business creation and growth.

FROM ADVERSITY: OPPORTUNITY?

In 2010, we collaborated with *la Fondation de l'Entrepreneurship* of Montreal to get a statistical portrait of Canadians' attitudes toward entrepreneurship, including their intentions to start businesses.

One interesting finding: in those parts of Canada most affected by the recession, Ontario and the West, we see a rise in people's intentions and efforts to start businesses.

For the full report, please see www.bdc.ca.

RURAL

We have partnerships with more than 220 Community Futures Development Corporations, a cross-country network of contact points located mostly in rural areas. Through it, we supported more than 1,300 entrepreneurs in fiscal 2011.

ABORIGINAL

We help promote economic development through the Aboriginal Business Development Fund. Our strategy includes management training, ongoing mentorship and loans of $2,000 to $20,000 with terms that vary depending on the cash flow of the project.

To raise entrepreneurship awareness among Aboriginal youth, we also organize E-Spirit, an Aboriginal youth business plan competition. To date, about 5,400 students have participated, and former competitors have gone on to operate their own businesses based on their E-Spirit plans.

YOUNG CANADIANS AND SMALL BUSINESSES

Many young entrepreneurs find it hard to secure financing because they have little or no management experience, financial resources or track record. With our Entrepreneurship Centres across Canada, we offer lending, consulting and other business resources aimed specifically at meeting the needs of younger and smaller businesses. In fiscal 2011, the centres granted $211 million in loans.

We celebrate the creativity and success of young entrepreneurs with our annual Young Entrepreneur Awards. Over the past seven years, we have authorized more than $1.0 billion in financing to them.

We also support:

- the Junior Achievement program for high school students interested in developing entrepreneurial skills;
- the Canadian Youth Business Foundation, which offers pre-launch coaching, resources, start-up financing and mentoring to people between 18 and 34 (we co-finance their business ventures);
- Advancing Canadian Entrepreneurship (ACE), which helps stimulate an entrepreneurial mindset among students in colleges and universities;
- the Impact Entrepreneurship Group, a, student-run organization for science students interested in entrepreneurship and leadership; and
- the Vanier College–BDC Case Challenge, in which students from Ontario and Quebec vie for medals in a competition focusing on entrepreneurial skills.

CORPORATE SOCIAL RESPONSIBILITY: WHAT DOES IT MEAN TO BDC?

We define corporate social responsibility (CSR) as different from charity and more than compliance with the law. It is about meeting society's expectations and managing the economic, social and environmental consequences of our actions.

A PRINCIPLE, NOT A PROGRAM

Corporate responsibility is a principle, not a stand-alone program. We are striving to make it an even stronger operational principle that shapes our policies and practices.

CLIMATE CHANGE = ENERGY = A COMPETITIVE CHALLENGE

Different governments and markets are putting a price on carbon. In the U.S., an estimated 47 separate jurisdictions are developing low-carbon fuel standards.

In China, the government is testing cap-and-trade systems in six provinces.

Also, SMEs that enter the supply chains of certain large firms must now quantify and reduce their greenhouse gas emissions because these firms have determined that greenhouse gas emissions are evidence of waste.

In fiscal 2011, BDC Consulting carried out a pilot project to inform entrepreneurs of this challenge, encourage them to adapt and support them with consulting services as they did so. Based on the success of this pilot, we will seek to replicate it in another part of the country.

In fiscal 2011, after carrying out a pilot project and doing market research, we chose a methodology to start gathering reliable baseline data on our energy consumption in fiscal 2012. Establishing the baseline will take time and effort. We rent more than 100 offices across the country; many landlords use systems not equipped to provide this precise information.

Our longer term goal is to reduce operational costs and gain experience and insights that we will use to design services to help clients reduce their energy use and greenhouse gas emissions.

THE ENVIRONMENT

CORPORATE SOCIAL RESPONSIBILITY: WHAT DOES IT MEAN TO BDC?

ECONOMICALLY

WE CREATE ECONOMIC OPPORTUNITY.

HOW

By supporting entrepreneurs and promoting entrepreneurship.

SOCIALLY

WE ACT IN WAYS THAT BUILD PUBLIC TRUST.

HOW

By using responsible governance, financing and human resources practices.

ENVIRONMENTALLY

WE SUPPORT ENVIRONMENTAL SUSTAINABILITY.

HOW

By supporting entrepreneurs and using greener practices.

WHAT TO WATCH	POLICIES, PRACTICES AND INDICATORS
Our clients	> Strategic performance measures (clients) > Our clients' economic impact
Entrepreneurship promotion	> Support for student, young and Aboriginal entrepreneurs
Financial sustainability	> BDC's return on equity > Strategic performance measures (operational excellence)

WHAT TO WATCH	POLICIES, PRACTICES AND INDICATORS
Good governance	> Federal statutes, notably the *Business Development Bank of Canada Act* and the *Financial Administration Act* > Yearly audit and regular special exams by the Auditor General of Canada and external audit firms > Legislative reviews by the Minister of Industry and Parliament > Board Code of Conduct
Responsible business practices	> BDC Employee Code of Conduct, Ethics and Values > Anti-Money Laundering and Anti-Terrorist corporate directive > OECD Guidelines for Multinational Corporations > UN Global Compact principles
Employees	> Qualified, dedicated employees > Employee engagement > Diversity

WHAT TO WATCH	POLICIES, PRACTICES AND INDICATORS
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]

2 STRATEGIC PERFORMANCE MEASURES

OUR STRATEGY IS FOCUSED. WE USE STRATEGIC PERFORMANCE MEASURES TO TRACK OUR PROGRESS AGAINST OUR CORPORATE PLAN OBJECTIVES.

AS OUR STRATEGY MUST ALSO BE FLEXIBLE AND RESPONSIVE, WE ADJUST THESE MEASURES WHEN NECESSARY.

CLIENT

STRATEGIC ACTIONS	PERFORMANCE MEASURES
HELP BUILD CAPACITY TO SUPPORT GROWTH AND ABILITY TO COMPETE IN WORLD MARKETS	Growth Composite: Working capital for market development, growth, global expansion, subordinate financing ($ million authorizations)
	Percentage of clients using both BDC Financing and BDC Consulting services[1]
CREATE A VALUED RELATIONSHIP WITH ENTREPRENEURS AND FIRMS	Financing and Consulting Client Index[2] An annual client survey that probes: > clients' overall satisfaction with BDC > their perception of the flexibility of BDC's terms and conditions > the regularity of BDC's contact with them > the value they assign to BDC's information and advice > the ways they benefit from BDC Consulting support

(1) Taken as a percentage of total active financing clients with one or more new consulting mandates in a given fiscal year.

(2) The client value index is a combination of the answers to five different questions to which we have attributed a certain value, measured in points. It is not a percentage score, and results can exceed 100 points if objectives are exceeded.

TARGET 2011	ACTUAL 2011	COMMENTS
$275.0 million	$275.4 million	Achieved
4.0%	4.4%	A good result 10% higher than planned
94	99	Our clients continue to be satisfied with our services

STRATEGIC PERFORMANCE MEASURES

DEVELOPMENT BANK

STRATEGIC ACTIONS	PERFORMANCE MEASURES
ADDRESS THE NEEDS OF SECTORS IN TRANSITION AND DEVELOPING MARKETS	Number of small loans (authorizations of $500,000 or less, excluding BDC Subordinate Financing)
CHAMPION CANADIAN ENTREPRENEURSHIP	Number of authorizations to new businesses (in business for two years or less)
BE AN INFORMED VOICE ON KEY BUSINESS ISSUES	

OPERATIONAL EXCELLENCE

STRATEGIC ACTIONS	PERFORMANCE MEASURES
MAINTAIN A STATE OF READINESS TO RESPOND TO MARKET NEEDS	Employee engagement
IMPROVE EFFICIENCY TO OPTIMIZE VALUE FOR STAKEHOLDERS	BDC efficiency ratio[2] The lower the ratio, the better the efficiency achieved.
BE PROFITABLE TO FINANCE OUR DEVELOPMENT ROLE	Acceptances ($ million, includes BDC Financing and BDC Subordinate Financing)
	Financing portfolio growth (%) (loans outstanding)
	BDC Venture Capital return of capital[3]
	Adjusted BDC consolidated net income ($ million)[4]
	BDC return on equity (10-year moving average)

[illegible] percentage of net interest and other income (includes both BDC Financing and BDC Subordinate Financing) [illegible] and fee income and realized gains or losses on financial instruments.

[illegible]

[illegible]

TARGET 2011	ACTUAL 2011	COMMENTS
5,100	6,094	An excellent result driven by the Economic Recovery Loan.
990	983	99% achieved

For BDC's contributions to public policy on business issues, e.g., research, public speeches and statements to Parliament, please visit www.bdc.ca.

Notable contributions in fiscal 2011: *Building an Innovative Nation, One Entrepreneur at a Time: Venture Capital Industry Review*; and *Canada's Support for Research and Development: Suggestions to Improve the Return on Investment (ROI).*

TARGET 2011	ACTUAL 2011	COMMENTS
75%	72%	While lower than the corporate plan objective, employee engagement is still higher than the industry average
46%	44.6%	We were able to have lower than planned expenses while achieving higher revenues
$3,523 million	$3,350 million	95% achieved; a good result affected by higher liquidity in the market.
9.1%	9.0%	99% achieved
0.9	1.0	Exceeded, due to a better than anticipated fair value adjustment of our portfolio.
$75 million	$368.6 million	Exceeded, in large measure due to the improved financial health of our clients. Please see page 41.
3.5%	5.9%	Exceeded, due to higher than anticipated net income in fiscal 2011.

3 RISK MANAGEMENT

BDC HAS A WILLINGNESS TO TAKE ON RISK WHILE REMAINING FINANCIALLY SUSTAINABLE.

WE MANAGE OUR RISKS BY USING FORMAL RISK REVIEWS AND RIGOROUS PROCESSES. THESE INCLUDE DEVELOPING AND COMMUNICATING OUR RISK TOLERANCE POLICIES AND SETTING DELEGATED AUTHORITIES AND LIMITS.

Risk is a defining, unavoidable feature of the financial services sector. It is inherent in virtually all of BDC's activities.

Risk is also a defining, unavoidable feature of entrepreneurial activity. And as we enter into business relationships with Canada's entrepreneurs, we must master the identification and management of several kinds of risk—to the greatest degree possible—to succeed.

BDC has a strong risk management culture that emphasizes risk identification, risk management, transparency and accountability.

Our board of directors provides the essential, independent oversight of BDC's exposure to risk.

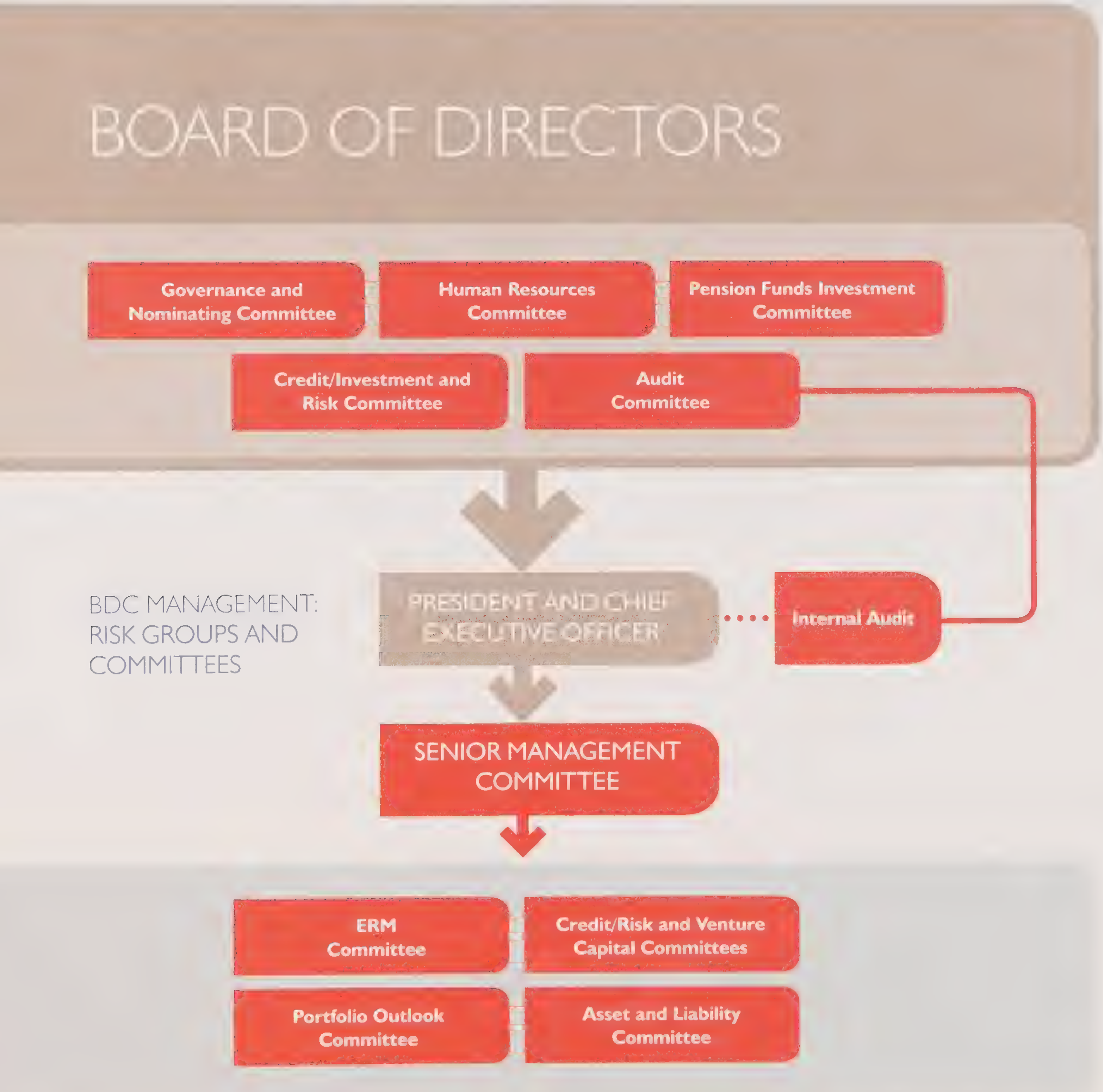
ENTERPRISE RISK MANAGEMENT POLICY

BDC's board of directors regularly reviews and approves the enterprise risk management (ERM) policy, an umbrella policy that codifies the integrated, enterprise-wide process by which we identify, analyze, accept or mitigate, and report risks. It also defines the roles and responsibilities of board members, executives and employees in the day-to-day implementation of the policy.

BDC'S PRINCIPLES OF ENTERPRISE RISK MANAGEMENT

1. Risk management is everyone's responsibility, from the board of directors to the employees.
2. Risk is managed by balancing the trade-offs between risk and return.
3. Risk management is integrated into strategic, business and budget planning, lending, investing and consulting activities.
4. BDC assesses its risks regularly.
5. The ERM umbrella policy codifies a comprehensive, disciplined and continuous process by which we identify, analyze and accept or mitigate risks.
6. The ERM policy evolves through annual reviews that align it with BDC's evolving activities.
7. BDC's policies and processes are consistent with ERM best practices.
8. The board of directors establishes the maximum levels of risk that BDC will tolerate in the pursuit of its mandate.

THE BOARD OF DIRECTORS AND ITS GOVERNANCE



THE BOARD OF DIRECTORS

The board and its committees oversee governance and risk management.

The board approves risk policies, risk appetite and strategies; ensures BDC's risk management is effective; reviews portfolio and treasury risks; reviews capital adequacy; establishes clear levels of delegation of authority for committing BDC to various types of transactions; and ensures that there is an appropriate link between risk and compensation.

Although all committees incorporate, as appropriate, considerations of risk into their deliberations, two of these committees—the Credit/Investment and Risk Committee and the Audit Committee—have specific risk management-related responsibilities. For full details on the board and its committees, please see page 109.

The **Credit/Investment and Risk Committee (CIRC)** advises the board that BDC's major risks are effectively identified and managed. It regularly reviews the credit risk management policy, ERM policy, treasury risk policy, environment policy, venture capital policy, authorization limits and delegation levels. It also reviews ERM, portfolio risk management and treasury risk management reports. The CIRC approves transactions above a certain threshold.

The **Audit Committee** advises the board on the effectiveness of BDC's management of financial standards, integrity and conduct, internal systems for financial controls and disclosure controls, and audit processes.

BDC MANAGEMENT: RISK GROUPS AND COMMITTEES

The **Senior Management Committee (SMC)** is composed of the president and chief executive officer, the executive operating officers, and designated vice presidents. It meets regularly to discuss emerging threats and opportunities.

Enterprise Risk Management (ERM) Committee membership is composed of the SMC and of other cross-departmental key vice presidents. The mandate of the committee is one of oversight. It is responsible for ensuring the existence and effectiveness of an integrated vision to address key strategic, financial and operational risks that may adversely affect BDC and impair its ability to achieve its objectives. As such, the committee ensures that an adequate ERM framework is in place to identify trends in existing and emerging critical issues, to evaluate or quantify their probable impact, and to ensure that BDC is managing them by acting on or recommending actions to mitigate them within BDC's risk appetite. The committee focuses its efforts on those risks it prioritizes as major risks requiring immediate attention, and ensures that the board receives timely and complete briefings on these risks and on current or recommended plans to mitigate them.

The **Credit/Risk Committee** and the **Venture Capital Committee (VCC)** are committees that regroup senior key leaders appointed by the president and chief executive officer. They oversee large, high-risk transactions. Their principal responsibility is to approve transactions within prescribed limits. For larger transactions, they put forward recommendations to the Credit/Investment and Risk Committee of the board.

The **Portfolio Outlook Committee** comprises members of senior management, all business units, and the portfolio risk management, credit risk management and market development departments. It reviews the migration of risk and quality in the loan portfolio, the securitization portfolio, and venture capital and subordinate financing investments. It also monitors the industry concentrations of BDC's assets.

The **Asset and Liability Committee** comprises the president and chief executive officer, the executive vice president and chief financial officer, and representatives from a cross-section of BDC's departments. It oversees the compliance of treasury activities with the treasury risk policy. These include matching assets and liabilities, monitoring the creditworthiness and documentation compliance of counterparties.

The **Internal Audit Department** promotes sound risk management practices as outlined in BDC's corporate risk management policies. Its risk-based annual audit plan evaluates BDC's management of its major risks, evaluates its reporting performance, and seeks assurance that risk management practices are present, appropriate and respected.

THE ERM FRAMEWORK

Effective risk management through an ERM framework is a means to protect BDC by managing risk exposure, resolving uncertainty and building reputational equity. It ensures that BDC is methodical and consistent in its decision-making process and operations. It precludes BDC from managing risk in an uncoordinated or piecemeal way.

The ERM policy is an umbrella policy that outlines the approach BDC takes toward risk management through the identification, assessment, integration and proactive management of its major risks on an enterprise-wide basis.

IDENTIFY

We regularly review BDC's activities to identify significant risks. Senior managers informally discuss these major risks at weekly meetings and, at least quarterly, in formal committees.

Every quarter, we identify, assess and prioritize risks at the corporate and functional unit level, and present these for discussion at the ERM Committee and subsequently to the board of directors. We also assess risks related to all significant projects, new products or services, and policy changes.

ANALYZE AND MEASURE

We either quantify or qualitatively assess the importance and impact of the risks posed by our business activities and corporate services. The ERM function is responsible for developing and maintaining the tools to do so, as well as for accompanying senior leaders from across the organization.

MONITOR AND REPORT

We monitor activities affecting BDC's risk profile, material risk exposures, actual losses and loss events, and take corrective actions to reduce risk exposures.

We measure risks across our business activities and corporate services to ensure they reflect and respect our policies and limits. Board members and senior managers use this information to understand BDC's risk profile and portfolio performance. Every quarter, the board's Credit/ Investment and Risk Committee receives a comprehensive summary of both.

CONTROL AND MITIGATE

We set risk tolerance thresholds that are consistent with BDC's objectives and strategies, and establish policies and guidelines that codify our governance and risk management culture.

The internal audit and portfolio risk management teams assess conformity with the risk management policies and procedures, and periodically test the internal controls. Every quarter, they present the results of these reviews to the Audit Committee of the board.

MAJOR RISK CATEGORIES

Risk management enables BDC to strike a balance between risk and reward.

BDC's major risks are classified within six categories.

STRATEGIC RISK

Strategic risk is the risk that BDC will fail to meet its mandate and imperil its long-term financial sustainability by adopting an overall corporate strategy that is based on an inaccurate knowledge of the market, sets inappropriate objectives or fails to allocate adequate resources to achieving those objectives.

Managing strategic risk

We have a dedicated team and rigorous process with which we annually update our five-year corporate plan. The plan benefits from BDC's knowledge of entrepreneurs based on its relationships with 29,000 clients, its research capacity and its relationships with a wide variety of knowledgeable stakeholders. It is approved by senior management, the board of directors and our shareholder, the Government of Canada. A summary of the plan is made public.

CREDIT RISK

This is the risk of loss that arises either directly or indirectly from the possibility of a default by a borrower or investee, a counterparty with whom BDC does business, or an issuer of an asset.

Managing credit risk

The most important risk for BDC to manage is the credit risk pertaining to its commercial term lending—the largest part of BDC's portfolio.

It is at the branch level, with the support of credit risk adjudication, that we choose to take or avoid risk on individual transactions. All of our managers are trained to assess overall credit risk. We base our decisions on our experience with similar clients, and we use policies, procedures and risk assessment tools to help us make these decisions.

This section should be read in conjunction with Note 19 to the Consolidated Financial Statements, Risk Management (page 92), which describes in detail BDC's risk management policies and measurements for credit risk.

MARKET RISK

This is the risk that may arise from developments in marketplace dynamics or an inability to forecast unfavourable economic conditions with sufficient lead time for BDC to counter the impact on the portfolio. It includes interest rate, equity market and foreign exchange risks. For BDC, market risk also arises from unpredictable venture capital financial markets.

Managing market risk

Please see Note 19 to the Consolidated Financial Statements, Risk Management (page 93), which describes in more detail BDC's risk management policies and measurements for market risk.

LIQUIDITY RISK

Liquidity risk is the risk that BDC could possibly be unable to honour all of its contractual obligations as they become due.

Managing liquidity risk

Please see Note 19 to the Consolidated Financial Statements, Risk Management (page 94), which describes in more detail BDC's risk management policies and measurements for liquidity risk.

INVESTMENT RISK

Investment risk is the risk associated with BDC's investment portfolios (venture capital direct and indirect portfolios, subordinate financing and securitization), including the risk of losses.

Managing investment risk

We have a due diligence process, including a policy and strategic approach, for authorizing investments, managing portfolios and divesting of investments.

OPERATIONAL RISK

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or events beyond our control, such as natural disasters.

Managing operational risk

We rigorously manage the ways we attract and retain the qualified professionals needed for a sophisticated financial institution like BDC. To do this, we use significant resources and policies, programs and initiatives, including ongoing training and succession planning.

We have internal controls for systems and processes used in our business transactions. We also have comprehensive policies, corporate directives and procedures that govern the way we process information, administer loans and carry out our business and corporate activities. We monitor these and subject them to internal audits.

We regularly review all of our accounts. For example, we review our written-off accounts to identify any operational risks associated with loan operations. By analyzing these risks, we modify our internal control procedures, when deemed appropriate.

We manage the risks associated with technology and telecommunications failures by replacing and upgrading our computer systems and equipment. We have security and control procedures to ensure the respect of various laws and privacy standards, and to ensure that our information is accurate and efficiently managed. These systems are regularly audited.

We have a comprehensive business continuity planning process to ensure the continuity of key business functions in the event of a disaster or other grave occurrence, such as a pandemic. We regularly review, communicate and test the business continuity plan.

At BDC, we ensure that all major operational risks are well identified and mitigated. The adequate and timely management of reputational, environmental, legal and regulatory operational risks is of particular importance to BDC.

Reputational risk

This is the risk of revenue loss or criticism from stakeholders posed by real or perceived breaches in our ability to securely and responsibly do our business. It includes risks associated with the activities of our clients.

There are various ways in which BDC could suffer damage to its reputation by failing—or being perceived to fail—to meet the expectations of its stakeholders. We risk damaging our reputation if we:

- use unethical practices;
- fail to meet standards of service quality;
- fail to meet legal and ethical standards, such as privacy laws, codes of conduct, environmental standards or good employment practices;
- commit operational failures, by using improper practices or breaching confidentiality, for example;
- fail to meet the shareholder's expectation that BDC will support entrepreneurship; or
- have clients who fail to meet societal expectations of responsible behaviour.

Organizations representing entrepreneurs and small and medium-sized enterprises may criticize the effectiveness of BDC's activity in the marketplace. Other financial institutions may question the pertinence of BDC's role and presence in the market. Potential clients may criticize BDC's services as inadequate for their specific needs.

Managing reputational risk

Reputational risk management is part of our corporate risk policies and corporate directives, which include:

- the BDC Employee Code of Conduct, Ethics and Values;
- the Charter of Client Rights;
- the Enterprise Risk Management policy;
- the Credit Risk Management policy;
- the Anti-Fraud corporate directive;
- the Anti-Money Laundering and Anti-Terrorist Financing corporate directive;
- the Venture Capital policy; and
- the policy on the handling of referrals and enquiries by members of Parliament, senators, ministerial staff and BDC directors.

At the corporate level, we systematically track opinion leader and stakeholder interests, through dialogue and media monitoring, including social media.

At the operational level—that is, while carrying out transactions—we conduct screening and transaction due diligence before approving and underwriting projects. Our due diligence and approval process includes verifying that the potential client is not involved in money laundering or other corrupt activities, and ensuring that the potential client meets requirements related to transparency and disclosure, environmental performance, ethics, and credit eligibility. Broader decision-making responsibility rests with the designated authorizing officers or committees.

Environmental risk

Environmental risk is the risk of financial loss or damage to reputation caused by environmental issues. It is often embedded in other risks, such as credit or operational risk.

Managing environmental risk

We have a well-defined process for identifying and evaluating environmental risk when we authorize a loan or an investment. Since 1991, our environmental risk policy has guided our decisions. And since 2006, we have also complied with the *Canadian Environmental Assessment Act*, to ensure we do not fund projects that might have a significant adverse impact on the environment.

We also have a monitoring process to ensure we continue to identify and appropriately manage environmental risk.

Legal and regulatory risk

This is the risk that breach of contract or non-compliance with laws, regulations, public sector guidelines, industry codes or ethical standards will have a negative impact on our business activities, earnings, regulatory relationships or reputation. Legal risk includes the effectiveness with which we prevent and handle litigation.

Managing legal and regulatory risk

The BDC Legal Affairs and Corporate Secretariat manages all litigation involving BDC and helps BDC employees comply with legal and regulatory requirements. It also maintains close ties to government departments—notably the Treasury Board of Canada, Secretariat—as well as private sector organizations that enable BDC to stay informed of potential or imminent regulatory changes. Finally, it provides the board of directors with the information it needs to oversee BDC's management of its legal and regulatory risks.

4 ANALYSIS OF FINANCIAL RESULTS

THIS ANALYSIS COMPARES OUR FISCAL 2011 FINANCIAL PERFORMANCE WITH FISCAL 2010 RESULTS AND 2011–2015 CORPORATE PLAN OBJECTIVES.

LINES OF BUSINESS

BDC reports on five business lines: Financing, Subordinate Financing, Venture Capital, Consulting and Securitization.

OPERATING ENVIRONMENT

The Canadian economy has emerged from recession and begun a slow, uneven recovery with modest growth. Entrepreneurs are optimistic about their firms' prospects and business investment is gaining momentum, reflecting firms' stronger financial positions and easing credit conditions. However, this investment has not yet reached pre-recession levels.

BDC's complementary role during the recession and recovery showed the need for a countercyclical lender with flexibility and expertise to act quickly to fill market deficiencies. In fiscal 2010, deteriorated credit conditions saw BDC lend more money to entrepreneurs than at any other time in its history. Similarly, as credit conditions improved, fiscal 2011 saw a decline in BDC Financing activities.

With working capital continuing to be the most-sought type of financing, BDC responded with the new Economic Recovery Loan, a pre-approved working capital loan for clients. More than 3,700 clients took advantage of the opportunity.

Even with the exceptional uptake of this loan, the dollar volume of BDC's activities returned to pre-recession levels in fiscal 2011 (albeit higher than those of fiscal 2009).

Canada has emerged from the recession in a better position than many other countries. However, its productivity is lagging. This is in large measure due to weak business innovation, notably insufficient investments in machinery and equipment, and information and communications technology. These lags are significant barriers to Canada's competitiveness. Consistent with its role as a development bank, BDC will continue to strengthen its relationships with entrepreneurs to support them as they create, grow and build the competitiveness of their firms.

ACTIVITIES

BDC Financing and Subordinate Financing clients accepted a total of $3.3 billion of financing during the year. We also provided crucial support to Canadian businesses via our other business lines, authorizing $95.3 million in venture capital investments and starting 2,300 consulting mandates.

In addition, BDC has a new initiative to expand financing options for small and medium-sized finance and leasing companies: the Vehicle and Equipment Financing Partnership (VEFP). The VEFP which was announced by federal government, is part of the Business Credit Availability Program (BCAP), and has an initial allocation of $500 million which is funded and managed by BDC.

Current VEFP initiatives include (i) a partnership with Sun Life Financial to facilitate funding through its financing model for which $30 million in financing was authorized in fiscal 2011 and (ii) the Multi Seller Platform for Small Originators (MSPSO), a securitization structure established in partnership with TAO Asset Management Inc. Under the MSPSO, $150 million in asset-backed securities was authorized during the year.

CONSOLIDATED NET INCOME

BDC reported strong results in fiscal 2011. Consolidated net income for the year reached $346.7 million, compared with $6.1 million in fiscal 2010.

Excluding net realized and unrealized losses on financial instruments of $21.9 million (see page 48), fiscal 2011 consolidated net income was $368.6 million. This profitability is mainly the result of the improving financial health of our clients, which resulted in a much lower provision for credit losses than last year. This reduction in the provision for credit losses accounted for about half of the increase in our net income. The remaining increase was due to improved results from our venture capital business line, growth in our financing portfolio and income generated from securitization.

Consolidated Net Income

for the years ended March 31 ($ in millions)

	2011	2010	2009	2008	2007
Financing*	**318.4**	115.3	105.3	166.2	168.0
Subordinate Financing	**11.1**	10.2	6.8	11.0	7.9
Venture Capital	**(18.6)**	(74.1)	(106.3)	(82.8)	(33.6)
Consulting	**(10.4)**	(4.6)	(2.9)	(4.5)	(4.3)
Securitization*	**68.1**	(1.6)	(1.0)	–	–
Net income before net gains (losses) on financial instruments	**368.6**	45.2	1.9	89.9	138.0
Net gains (losses) on financial instruments	**(21.9)**	(39.1)	88.7	(5.3)	n/a
Net income	**346.7**	6.1	90.6	84.6	138.0

* Excludes net gains and losses on financial instruments.

Income from BDC Financing was $318.4 million, an increase of $203.1 million from last year. This significant increase was mainly due to a lower provision for credit losses and higher net interest and fee income resulting from the growth of the portfolio.

Income from BDC Subordinate Financing was $11.1 million, $0.9 million higher than last year, mainly as a result of the portfolio growth.

BDC Venture Capital recorded a $18.6-million loss for fiscal 2011. The performance of this business line was still hampered by difficult market conditions. However, results significantly improved over last year's ($55.5-million reduction in net loss), as valuations of maturing investee companies in our portfolio stabilized. Actual results were also affected by an important fair value appreciation resulting from an offer to purchase received by one of our investee companies.

BDC Consulting reported a net loss of $10.4 million, compared with a net loss of $4.6 million last year, as a result of lower revenues and investments to extend our service offering.

BDC Securitization, a new business line resulting from the purchase of $3.7 billion of asset-backed securities under the Canadian Secured Credit Facility (CSCF), recorded a profit of $68.1 million in its first complete year of operations.

Net losses on financial instruments of $21.9 million ($24.0 million in losses from BDC Financing and $2.1 million in gains from BDC Securitization) were $17.2 million lower than last year.

PERFORMANCE AGAINST OBJECTIVE

The consolidated net income of $346.7 million was $276 million more than the corporate plan objective. When BDC wrote the corporate plan, the economy was not expected to exit the recession as quickly as it has. Most of the variance—$240 million—is attributable to BDC Financing results, primarily due to a lower-than-anticipated provision for credit losses.

BDC Subordinate Financing's net income of $11.1 million met the corporate plan objective.

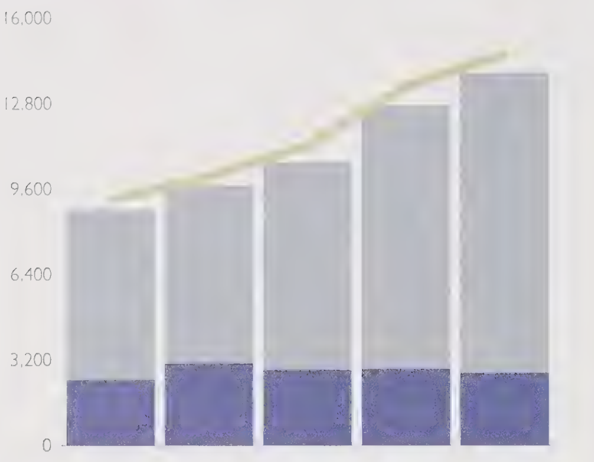
BDC Venture Capital's loss of $18.6 million was $51 million lower than expected because of a better-than-anticipated fair value assessment of the portfolio and an important offer to purchase received by one of our investee companies.

BDC Consulting's loss was $2.4 million higher than expected, mainly as a result of lower revenues.

BDC Securitization's income of $68.1 million was $4 million better than expected, mostly due to a higher realized gain from a sale of asset-backed securities and lower-than-expected operating and administrative expenses.

Fiscal 2011 results also included $21.9 million in net losses on financial instruments compared with projected net losses of $5 million.

Performing Portfolio
as at March 31 ($ in millions)



	2007	2008	2009	2010	2011
Fixed-rate performing portfolio	2,464	3,069	2,824	2,861	**2,706**
Floating-rate performing portfolio	6,378	6,652	7,777	9,829	**11,214**
Total performing portfolio	8,842	9,721	10,601	12,690	**13,920**
Total BDC Financing portfolio	9,128	10,014	11,117	13,311	**14,506**

Financing Net Interest and Fee Income
for the years ended March 31 ($ in millions)

	2007	2008	2009	2010	2011
Net interest and fee income	476.4	512.5	575.8	663.1	**733.9**
As a % of average loan portfolio	5.35%	5.37%	5.45%	5.43%	**5.23%**

BDC FINANCING

BDC Financing offers entrepreneurs secured and unsecured term loans and specialized services tailored to support them as they create and grow their firms; develop and expand their markets; invest in intangible assets, such as information technology; buy equipment; or transfer their companies to a new generation of owners.

FINANCING PORTFOLIO

BDC Financing's closing portfolio, before allowance for credit losses, rose from $13.3 billion a year ago to $14.5 billion as at March 31, 2011, an increase of $1.2 billion or 9.0%. This growth is attributed to our high level of authorized transactions during the economic downturn. The closing portfolio comprises $13.9 billion in performing loans and $0.6 billion in impaired loans.

As at March 31, 2011, 80.6% of the performing portfolio was composed of floating-rate loans. In fiscal 2010, it was 77.5%.

NET INTEREST AND FEE INCOME

The rate we charge our clients takes into consideration the cost of the funds we borrow, our operating expenses and the risk of each loan.

Net interest and fee income of $733.9 million reflects interest and fee income less interest expense on borrowings. That compared with $663.1 million of net interest and fee income recorded in fiscal 2010. The increase of $70.8 million was the result of significant portfolio growth. However, net interest and fee income margin expressed as a percentage of the average portfolio decreased compared with last year, mainly due to lower recognition of fee income.

PROVISION FOR CREDIT LOSSES

The allowance for credit losses is adjusted by an annual provision charged to net income.

BDC Financing recorded a provision for credit losses of $97.1 million in its net income. This represents 0.7% of the average loan portfolio. This is less than last year's percentage of 2.1% ($260.7 million).

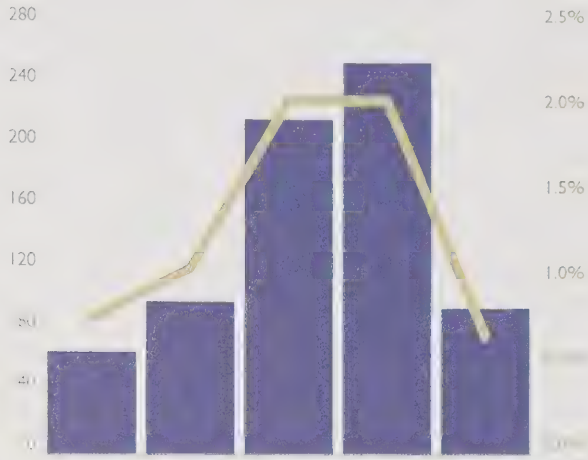
This decrease was a combined result of improved market conditions, the resilience of Canadian businesses and BDC's rigorous monitoring of its portfolio.

A significant factor influencing the specific provision is the level of loans that were downgraded from performing to impaired. When loans default, we classify them as impaired and record an amount equal to the net exposure as a specific provision. The rate of these downgrades improved; it declined from 4.8% of the performing opening portfolio last year to 2.9% in fiscal 2011.

A dedicated team closely manages the $586.2-million impaired portfolio, which improved by $34.3 million in fiscal 2011. It was 4.0% of the total portfolio on March 31, 2011, down from the 4.7% recorded in fiscal 2010.

Provision for Credit Losses

for the years ended March 31 ($ in millions)



	2007	2008	2009	2010	**2011**
Provision for credit losses	67.9	101.5	222.8	260.7	**97.1**
As a % of average loan portfolio	0.8%	1.1%	2.1%	2.1%	**0.7%**

BDC maintains the allowance for credit losses at a level judged adequate to absorb the credit losses in our portfolio. This allowance comprises the specific allowance and the general allowance. Management determines the specific allowance by identifying and determining losses related to specific impaired loans. It determines the general allowance by assessing existing losses not yet identified in the performing portfolio.

On March 31, 2011, the total allowance was $774.7 million ($250.2 million specific and $524.5 million general). In fiscal 2010, it was $785.4 million.

The total allowance was 5.3% of the loan portfolio outstanding, compared with 5.9% at the end of fiscal 2010. The decrease reflects the end of the recession and improving economic conditions.

BDC finances creditworthy projects that are, on average, riskier than the ones the private sector typically accepts. Accordingly, BDC's allowance rate continues to be significantly higher than that of private sector financial institutions.

To read more about credit risk management, please see Note 19 to the Consolidated Financial Statements.

Impaired Financing Portfolio

as at March 31 ($ in millions)

	2007	2008	2009	2010	**2011**
Impaired portfolio	286.5	293.4	516.2	620.5	**586.2**
Impaired portfolio as a % of total loan portfolio	3.1%	2.9%	4.6%	4.7%	**4.0%**

Allowance for Credit Losses

as at March 31 ($ in millions)

	2007	2008	2009	2010	**2011**
Specific allowance	106.3	112.1	220.3	260.9	**250.2**
General allowance	399.2	420.6	444.7	524.5	**524.5**
Total allowance	505.5	532.7	665.0	785.4	**774.7**
Total allowance as a % of loan portfolio	5.5%	5.3%	6.0%	5.9%	**5.3%**

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $318.4 million compared with $287.1 million last year. The increase was mainly a result of higher pension expenses and the cost of supplemental resources needed to support the growth in the portfolio.

However, when expressed as a percentage of the average portfolio, operating and administrative expenses decreased from 2.4% in fiscal 2010 to 2.3% in fiscal 2011.

To prepare for the next decade, BDC is making a major multi-year investment to modernize its Financing business delivery, technology platforms and software applications. It has invested in technology and implemented a new operating structure based on a segregation of duties and role specialization. These are designed to give employees who have direct relationships with clients more time to dedicate to these clients. Fiscal 2010 and 2011 operating and administrative expenses, as well as capitalized systems development costs (intangible assets), were affected by this multi-year project.

INCOME FROM BDC FINANCING

BDC Financing income before net gains or losses on financial instruments (see page 48) was $318.4 million, up by $203.1 million from last year's $115.3 million. This increase is largely due to a $163.5-million reduction in the provision for credit losses and a $70.9-million increase in net interest and fee income, which was partly offset by a $31.3-million increase in operating and administrative expenses.

PERFORMANCE AGAINST OBJECTIVE

BDC Financing's closing portfolio, at $14.5 billion, was $0.2 billion higher than the corporate plan objective of $14.3 billion.

Excluding net losses on financial instruments, BDC Financing net income was $240 million higher than planned. This positive result was mainly explained by a lower-than-expected provision for credit losses.

The provision for credit losses of $97.1 million was $206 million lower than the corporate plan objective. During the planning period, BDC had anticipated a slower economic recovery than later proved to be the case.

In addition, net interest and fee income was $27 million higher than the $707 million anticipated, and total operating and administrative expenses were $7 million lower than the corporate plan objective.

BDC SUBORDINATE FINANCING

BDC Subordinate Financing supports high-potential, growth-oriented firms by providing flexible quasi-equity and equity-type financing for entrepreneurs. For this line of business, working capital remains the most important market need, particularly liquidity for growth and geographic expansion.

Since fiscal 2004, BDC's subordinate financing activity has taken place via joint ventures with the Caisse de dépôt et placement du Québec (the Caisse), starting with a $300-million (BDC: $150 million) commitment with AlterInvest Fund LP. This was followed by a $330-million (BDC: $165 million) commitment with AlterInvest II Fund LP. BDC acts as the general partner of these funds and receives management fees. In November 2009, AlterInvest II Fund LP reached its authorized capacity and BDC began to fully fund new subordinate financing transactions through its wholly owned investment subsidiary, BDC Capital Inc.

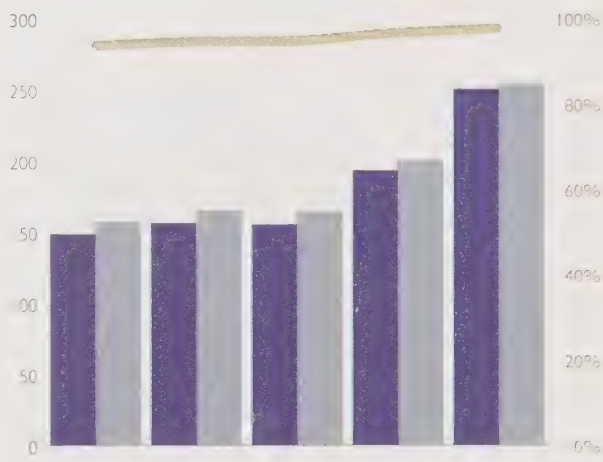
SUBORDINATE FINANCING PORTFOLIO

The BDC Subordinate Financing portfolio increased from $193.2 million in fiscal 2010 to $250.4 million. The most important factor contributing to this growth was the level of disbursements, as BDC now fully funds new investments. We disbursed $92.3 million in fiscal 2011, $20.8 million more than last year. Total investments under BDC management increased from $338.3 million to $369.8 million.

The fair value of the portfolio as a percentage of cost reached 98%, an indication of its good health.

Subordinate Financing Portfolio

as at March 31 ($ in millions)



	2007	2008	2009	2010	2011
Fair value	148.3	156.2	155.1	193.2	**250.4**
Cost	157.0	164.9	164.0	200.0	**254.2**
Fair value as % of cost	94%	95%	95%	97%	**98%**

INCOME FROM SUBORDINATE FINANCING

BDC Subordinate Financing reported income of $11.1 million for the year, $0.9 million higher than in fiscal 2010.

Net interest income of $19.1 million was higher than the fiscal 2010 result of $15.6 million, due to significant portfolio growth. Realized gains and losses on investments and other income totalled $5.9 million, $1.6 million lower than last year.

The change in unrealized appreciation of investments of $3.4 million was $1.9 million higher than last year. The change in unrealized appreciation of investments included:

- a $4.7-million net fair value depreciation of the portfolio ($2.3 million in 2010); and
- a reversal of net fair value depreciation due to realized income totalling $8.1 million ($3.8 million in 2010).

Operating and administrative expenses increased by $2.8 million from last year, resulting mainly from an increase in pension expenses and the cost of more resources needed to support the growth in the portfolio.

PERFORMANCE AGAINST OBJECTIVE

Income from BDC Subordinate Financing of $11.1 million in fiscal 2011 was higher than the corporate plan objective of $10.4 million. This difference was mainly due to a better-than-anticipated change in the fair value of investments, mostly offset by lower-than-expected net realized investment income.

BDC VENTURE CAPITAL

BDC Venture Capital invests in high-potential Canadian technology firms and helps cultivate them into globally focused, growth-oriented companies. These investments are crucial to helping achieve the Government of Canada's goal of deriving economic benefit from its investments in research and development.

BDC's specialized investments cover every stage of the development of these companies, from pre-seed through expansion across multiple sectors. BDC focuses primarily on supporting Canadian technology companies that have the highest potential to succeed, regardless of their stage of development.

BDC Venture Capital has a substantial investment portfolio, consisting of a solid base of promising companies that will need more capital as they continue to grow and mature. BDC invests in companies directly or via investment funds.

BDC holds its venture capital assets through its wholly owned subsidiary, BDC Capital Inc.

VENTURE CAPITAL INDUSTRY

The global venture capital industry continues to face challenges in three of its most important activities: investing, fundraising and exits. However, while conditions in all major economies are far from robust, trends appear to be stabilizing.

Investment levels in Canada reached historical lows in 2009. But despite longer term trends that suggest a continuing slow pace of investment, with substantial market difficulties, there was growth in investment activity in 2010.

Fundraising remains problematic for domestic venture capital funds; new capital commitments dropped off in 2010. One key concern is the absence of major venture capital partnership closings in the third quarter of 2010.

The path to exit for most venture-backed Canadian technology firms remains problematic as well. While market risk appetite has been increasing, it remains to be seen whether initial public offerings will regain their prominence as an exit mechanism for venture-backed firms. The environment for merger-and-acquisition exit opportunities has proven better for specific sectors.

In fiscal 2011, BDC did a comprehensive review of Canada's venture capital industry and its own operations to better understand how it can most effectively play its role. It has established a new strategic direction and business model that takes into account the industry's challenges and strives to build on BDC's role as an industry catalyst in helping meet them. For full information, please see the *Venture Capital Industry Review* at www.bdc.ca.

VENTURE CAPITAL PORTFOLIO

The fair value of the portfolio increased from $362.3 million in fiscal 2010 to $407.8 million. The portfolio is composed of $319.0 million in direct investments and $88.8 million in investments in 22 funds. The increase in the portfolio is mainly due to an increased level of disbursements. BDC disbursed $86.1 million in fiscal 2011, compared with $58.2 million in fiscal 2010, a 48% rise.

The fair value as a percentage of cost improved considerably, from 71% to 83%. This can be attributed to more stable valuations of maturing investee companies in the portfolio, as well as to BDC's continuous review of its portfolio companies in order to focus on those that show the most promise of success.

The total venture capital commitment, which represents the portfolio outstanding at cost plus undisbursed commitments, amounted to $725.2 million as at March 31, 2011. It comprises $416.5 million committed to direct investments and $308.7 million commited to investment funds. The undisbursed portion has been mainly commited to private funds and will be invested over the next few years.

BDC Venture Capital Portfolio: Total Investments

as at March 31 ($ in millions)

	2007	2008	2009	2010	**2011**
Portfolio (fair value)	505.1	476.0	441.6	362.3	**407.8**
Fair value as % of cost	84%	79%	73%	71%	**83%**
Portfolio (cost)	601.2	601.4	608.7	512.4	**493.5**
Undisbursed commitment	146.7	147.7	196.0	222.6	**231.7**
Total commitment to clients	747.9	749.1	804.7	734.9	**725.2**

LOSS FROM VENTURE CAPITAL

In fiscal 2011, BDC Venture Capital recorded a loss of $18.6 million. This is a $55.5-million improvement compared with the $74.1 million loss recorded in fiscal 2010.

The improvement was due to significantly lower net fair value depreciation of the portfolio: $0.6 million in fiscal 2011, compared with $59.4 million last year. Actual results included an important fair value appreciation of $34 million resulting from an offer to purchase received by one of our promising investee companies. The sale closed in May 2011, generating for BDC an excellent return of capital of at least 16:1.

The level of divestitures was still affected by difficult market conditions. Net realized losses on investments were $69.5 million, compared with $107.8 million in fiscal 2010. Fiscal 2011 results included $4.0 million in losses from sales and $65.5 million in write-offs. These net realized losses had no impact on net results, as fair value depreciation taken on these investments in prior years was reversed in fiscal 2011.

BDC recorded a change in unrealized appreciation of $71.5 million, wich included the following:

> $0.6 million in net fair value depreciation of the portfolio; and

> a reversal of net fair value depreciation on divested investments and write-offs totalling $72.1 million.

BDC recorded $7.1 million in unrealized foreign exchange losses on investments due to foreign exchange fluctuations on its U.S. dollar investments. BDC monitors U.S. currency fluctuations and uses foreign exchange contracts to partially hedge U.S. dollar investments. As a result, $5.6 million in net gains on foreign exchange contracts partly offset losses recognized due to U.S. dollar depreciation.

Operating and administrative expenses were $22.7 million, compared with $12.2 million in fiscal 2010. The increase was due to an increase in pension expenses, as well as the one-time investment incurred to conduct a venture capital strategic review and reorganizational costs to deploy our new business model.

PERFORMANCE AGAINST OBJECTIVE

BDC Venture Capital's loss of $18.6 million was significantly better than the $70-million loss anticipated in the corporate plan. This was largely due to the lower net fair value depreciation of the portfolio. Operating and administrative expenses were $4.9 million higher than originally planned, mainly due to the completion of the strategic review.

BDC CONSULTING

BDC Consulting offers customized business consulting services at a cost entrepreneurs can afford. It strives to provide entrepreneurs with the support they need to grow their business and enhance their competitiveness in local and global markets. BDC Consulting continues to focus on the quality of its services and obtained ISO 9001 certification in April 2011.

LOSS FROM CONSULTING

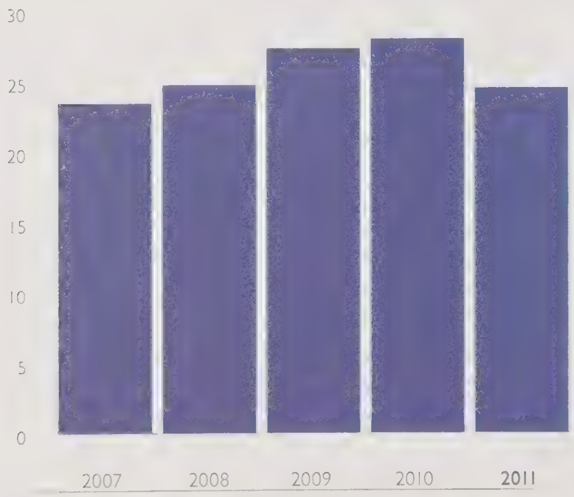
Despite their general optimism about the future financial health of their firms, Canadian entrepreneurs seem reluctant to buy consulting services or to start new projects, and are slowing the pace at which they implement current projects. BDC Consulting was affected by this reluctance to spend working capital on discretionary items such as consulting. As a result, consulting revenues decreased by $3.5 million from the $28.1 million recorded last year.

In addition, investments in product development, people, processes and technology to continue to extend our service offering, as well as an increase in pension costs, caused total operating and administrative expenses to rise to $34.9 million, $2.2 million higher than last year.

The loss for the year was $10.4 million, $5.7 million higher than the loss recorded in fiscal 2010.

Consulting Revenue

for the years ended March 31 ($ in millions)



	2007	2008	2009	2010	**2011**
Consulting revenue from activities	23.5	24.8	27.4	28.1	**24.6**

PERFORMANCE AGAINST OBJECTIVE

Revenues of $24.6 million were $3.9 million lower than the corporate plan objective. At $10.4 million, the net loss was $2.4 million higher than the corporate plan objective of a loss of $8.0 million.

BDC SECURITIZATION

BDC Securitization is a new business line created in 2009 as part of the Government of Canada's Economic Action Plan. It results from the purchase of asset-backed securities (ABS) under the Canadian Secured Credit Facility (CSCF).

The CSCF aimed to support companies financing auto and equipment leases and loans by buying Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floor plan loans. The objectives were to get funding to financing companies that needed it and restart the securitization market. BDC delivered on both objectives and purchased $3.7 billion of ABS under the facility. The offer ended on March 31, 2010. This portfolio will reach almost complete maturity in fiscal 2014, if we hold these assets to maturity.

While the CSCF was an important initiative to re-establish the public term securitization market, its scope was limited to larger transactions. As a result, the Government of Canada announced in 2010 a new initiative to help the Canadian auto and equipment finance and leasing industry sector: the Vehicle and Equipment Financing Partnership (VEFP). The VEFP, funded and managed by BDC, has an initial allocation of $500 million and is designed to expand financing options for small and medium-sized finance and leasing companies.

Current initiatives under the VEFP include the Multi Seller Platform for Small Originators (MSPSO), under a partnership established in April 2010 with TAO Asset Management Inc. The MSPSO will provide a common securitization structure for companies to obtain funding under the framework of the VEFP.

In fiscal 2011, BDC authorized $150 million under the MSPSO. The first disbursement took place in April 2011.

SECURITIZATION PORTFOLIO

On March 31, 2011, the ABS portfolio was $3.1 billion, $0.2 billion less than at the close of fiscal 2010. During the first quarter of fiscal 2011, BDC disbursed the last $300 million under the CSCF program. During the third quarter, it sold $193.4 million of its ABS portfolio. This sale signalled a growing appetite in the secondary market for ABS and an increase in market interest in BDC's remaining ABS portfolio.

INCOME FROM SECURITIZATION

BDC Securitization recorded a net income of $68.1 million for its first complete year of operations, excluding net realized gains on financial instruments.

Fiscal 2011 net income consisted of net interest and fee income of $69.1 million, $1.3 million of realized gain on a sale of ABS and $2.3 million of operating and administrative expenses.

The fiscal 2010 net loss of $1.6 million was mainly due to set-up costs. It also included a $7.5-million loss on initial recognition of the ABS portfolio, a result of a difference between the yield that BDC was willing to accept on its investments and the market-demanded yield for similar securities at time of purchase. BDC is amortizing this loss in interest income over the life of the instrument, so it will reverse itself completely by the time the securities mature. In fiscal 2011, BDC recognized income of $2.6 million as a result of the amortization of this loss.

PERFORMANCE AGAINST OBJECTIVE

Income of $68.1 million was $3.8 million better than anticipated. The higher income was mainly due to the $1.3-million realized gain from a sale of ABS, and lower-than-expected operating and administrative operating expenses.

NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS

Net gains or losses on financial instruments are mostly related to long-term notes and derivatives. Net gains or losses on financial instruments include a realized and an unrealized portion.

The realized gains or losses are incurred when financial instruments are repurchased prior to maturity.

The unrealized portion represents the change in fair value of structured notes and derivative instruments. BDC has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. BDC uses derivative financial instruments as an economic hedge for its structured notes.

The net unrealized gains or losses are mainly due to the gap between the government agency yield curve used to determine the fair value of our structured notes and the swap yield curve used to determine the fair value of our derivative instruments. The net unrealized gains or losses also fluctuate because of counterparty credit risk. These unrealized gains or losses will reverse themselves completely at maturity.

During fiscal 2011, BDC recorded net losses on financial instruments of $21.9 million ($24.0 million in losses from BDC Financing and $2.1 million in gains from BDC Securitization), which included net realized losses of $3.5 million and net unrealized losses of $18.4 million. This compared with net losses on financial instruments of $39.1 million in fiscal 2010, comprising net realized losses of $5.8 million and net unrealized losses of $33.3 million.

CONSOLIDATED BALANCE SHEET AND STATEMENT OF CASH FLOW

Total assets of $18.4 billion increased by $0.7 billion, or 4.1%, from a year ago, largely due to a $1.1-billion growth in our loan and investment portfolios. This growth was partially offset by a $0.4-billion decrease in cash and cash equivalents.

BDC holds cash and cash equivalents in accordance with its liquidity and investment management policy. Our liquidities, which ensure funds are available to meet our contractual cash outflows, totalled $643.6 million on March 31, 2011, compared with $1,013.8 million in fiscal 2010.

BDC's total portfolio reached $17.5 billion on March 31, 2011, compared with $16.4 billion a year ago. In fiscal 2010, BDC purchased asset-backed securities under the CSCF. This portfolio stood at $3.1 billion on March 31, 2011, and comprised Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floorplan loans.

At $13.7 billion, the loan portfolio, net of allowance for credit losses, was the largest asset on the balance sheet ($14.5 billion in gross portfolio and a $0.8-billion allowance for credit losses). This portfolio grew by $1.2 billion as a result of the strong demand for BDC Financing services during the economic downturn and recovery.

As for BDC's investment portfolios, the subordinate financing portfolio stood at $250.4 million, up by $57.2 million from a year ago, as BDC now fully funds new transactions. The venture capital portfolio was $407.8 million, an increase of 12.6% compared with last year, reflecting improving market conditions.

Derivative assets of $67.1 million and derivative liabilities of $25.8 million reflect the fair value of derivative financial instruments as of March 31, 2011. Net derivative fair value increased by $28.8 million compared with last year as a result of foreign exchange revaluation on swaps used to economically hedge our structured long-term notes.

Accrued benefit assets of $169.8 million and accrued benefit pension liabilities of $115.5 million were $24.4 million and $2.4 million higher than last year, respectively.

As of March 31, 2011, we funded our portfolios and liquidities with borrowings of $14.1 billion and total equity of $4.0 billion. The mix between short-term and long-term notes changed in fiscal 2011, as we fund most of the floating-rate loan portfolio with short-term notes; in fiscal 2010, we used long-term floating-rate notes with interest rates that reset monthly.

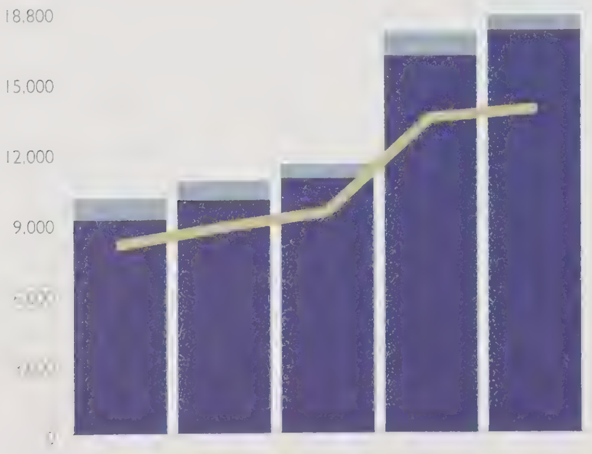
Cash flows provided by financing activities amounted to $338.4 million in fiscal 2011, while operating activities generated $518 million ($5,642.9 million and $449.5 million for fiscal 2010, respectively). In fiscal 2010, important cash flows provided by financing activities were needed to fund our portfolio growth, as well as the issuance of asset-backed securities under the CSCF.

Equity consisted of $2,772.2 million in paid-in capital, $1,211.5 million in retained earnings and $24.6 million in accumulated other comprehensive income. Retained earnings increased by $341.7 million in fiscal 2011, due to consolidated net income of $346.7 million and declared dividends of $5.0 million.

BDC return on common equity reached 9.5% for fiscal 2011, well above the government's average long-term cost of capital of 1.9%.

Borrowings

as at March 31 ($ in millions)



	2007	2008	2009	2010	2011
Liquid assets	929	817	604	1,014	**644**
Portfolios*	9,276	10,114	11,049	16,356	**17,455**
Borrowings	8,228	8,986	9,629	13,724	**14,115**

* Includes net portfolios, investments and asset-backed securities

Total Shareholder's Equity

as at March 31 ($ in millions)

	2007	2008	2009	2010	2011
Paid-in capital*	1,066.2	1,066.2	1,316.2	2,772.2	**2,772.2**
Retained earnings	741.5	804.0	878.1	869.8	**1,211.5**
Accumulated other comprehensive income (loss)	–	(2.8)	(4.7)	1.0	**24.6**
Total shareholder's equity	1,807.7	1,867.4	2,189.6	3,643.0	**4,008.3**
Return on common equity	8.5%	4.7%	4.7%	0.0%	**9.5%**

* Includes $27.8 million of contributed surplus.

Dividends

for the years ended March 31 ($ in millions)

	2007	2008	2009	2010	**2011**
Preferred dividends declared	9.5	9.5	8.9	6.4	**5.0**
Common dividends declared	12.1	12.0	7.0	7.9	**0.0**
Total dividends declared	21.6	21.5	15.9	14.3	**5.0**
Total dividends paid	20.8	21.5	16.5	16.8	**6.4**

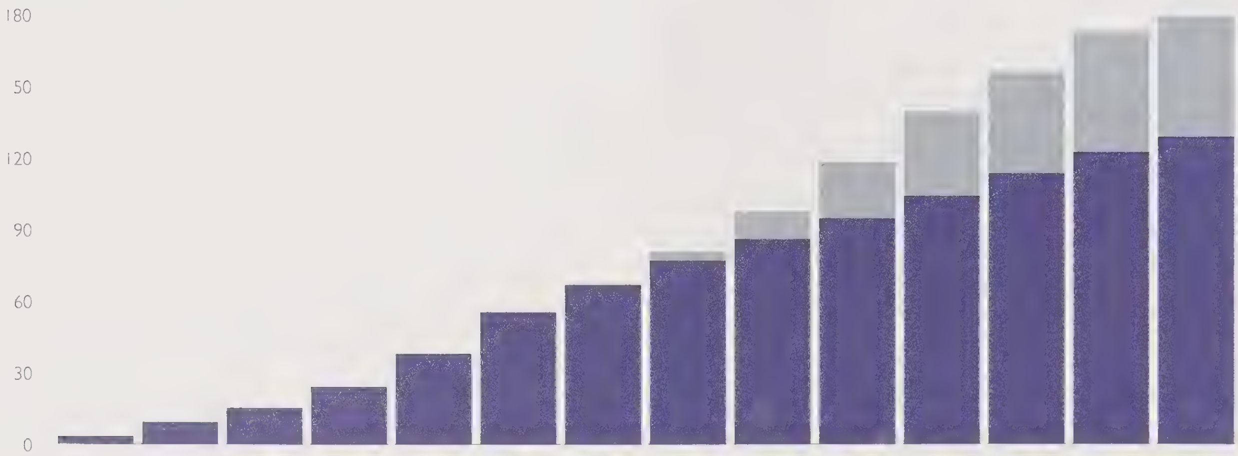
DIVIDENDS

BDC pays dividends to its sole shareholder, the Government of Canada. It paid $6.4 million in dividends in fiscal 2011.

BDC will make an additional payment of $50.1 million in June 2011. Of this, $5.0 million is on preferred shares declared in fiscal 2011. The remaining $45.1 million is on common shares declared after March 31, 2011, based on fiscal 2011 performance.

Cumulative Dividends Paid

as at March 31 ($ in millions)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	**2011**
Preferred dividends paid	3.4	9.4	15.4	24.3	38.2	55.7	67.1	77.3	86.4	95.1	104.5	114.0	122.9	**129.3**
Common dividends paid	–	–	–	–	–	–	0.4	3.8	11.5	23.6	35.7	42.7	50.6	**50.6**
Total dividends paid	3.4	9.4	15.4	24.3	38.2	55.7	67.5	81.1	97.9	118.7	140.2	156.7	173.5	**179.9**

CAPITAL MANAGEMENT

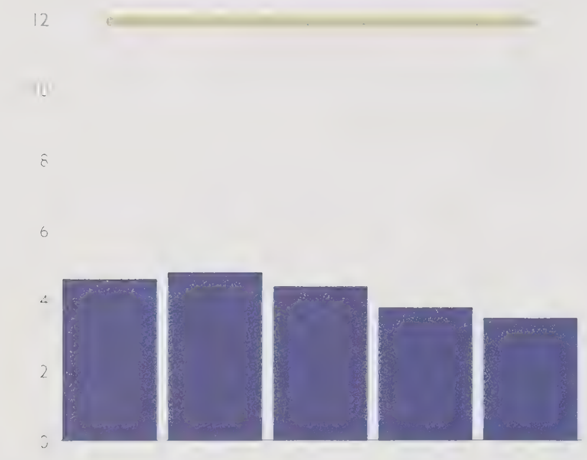
STATUTORY LIMITATIONS

BDC's debt-to-equity ratio cannot exceed 12:1. On March 31, 2011, it was 3.5:1, compared with 3.8:1 at March 31, 2010.

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not exceed $3.0 billion. As of March 31, 2011 and 2010, these amounts totalled $2.772 billion.

Debt-to-Equity Ratio

as at March 31



	2007	2008	2009	2010	**2011**
Actual	4.6	4.8	4.4	3.8	**3.5**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

CAPITAL ADEQUACY

Treasury Board of Canada, Secretariat, provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and loss provisions sufficient to ensure that it can withstand unfavourable economic circumstances without needing government funding.

Adequate capital ratios reflect the relative risk of BDC's assets. The recommended capital is at least 5% for asset-backed securities, 10% for term loans and 25% for quasi-equity loans, net of allowance for credit losses; 25% for subordinate financing investments, and 100% for venture capital investments. BDC also established capital adequacy ratios for loan guarantees and letters of credit to reflect the relative risk of these guarantees. BDC operated in accordance with its capital adequacy guidelines during the year (see page 86).

While BDC is not required to meet the requirements of the Basel II Capital Accord, we use an economic capital model and a supporting risk rating system that align with Basel requirements. The capital model looks beyond market, credit and operational risks to business risks and maturity risks.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 24 to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

BDC's employer contributions to the registered pension plan totalled $59.4 million in fiscal 2011, compared with $31.0 million in fiscal 2010. The increase in contributions was a result of additional payments made by BDC to manage the funding status of our pension plan.

We fund our registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current federal pension regulations. As of December 2010, the registered pension plan was in a deficit situation for funding purposes. We will continue to contribute to our pension plans in future years to manage our funded status as prescribed by the federal pension regulations.

Since fiscal 2006, BDC has funded the supplemental plans on a voluntary basis. It contributed $5.5 million to these plans in fiscal 2011, compared with $4.6 million in fiscal 2010. Other employee future benefits plans are unfunded.

5 ACCOUNTING AND CONTROL MATTERS

CRITICAL ACCOUNTING ESTIMATES

BDC's significant accounting policies are described in Note 2 to the Consolidated Financial Statements. Certain of these policies, as well as estimates made in applying such policies, are considered critical, as they require significant judgements by management. BDC has established control procedures, including formal representations and certification by senior officers, to ensure that accounting policies and estimates are reviewed and applied consistently from period to period. Critical accounting estimates include those related to the allowance for credit losses; the fair value of financial instruments, including venture capital and subordinate financing investments; and pension and other employee future benefits.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is management's best estimate of probable credit-related losses in the financing portfolio. It comprises the specific allowance and the general allowance. Management determines the specific allowance by identifying and determining losses related to impaired loans, and determines the general allowance by assessing probable but unknown existing losses in the performing portfolio.

BDC determines the allowances based on quantitative and qualitative assessments that use current and historical credit information. The process requires BDC to make assumptions and judgements by carrying out certain activities, including the following: (i) assessing the impaired status and risk of a loan; (ii) estimating cash flows and collateral values; (iii) developing default rates and loss rates based on historical data; (iv) adjusting loss rates based on relevant experience; (v) assessing changes in credit strategies, processes and policies; (vi) assessing the current credit quality of the portfolio, based on credit quality trends and on portfolio characteristics and composition; and (vii) determining the current position of economic and credit cycles. Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level.

BDC maintains the allowance for credit losses at an adequate level, taking into consideration the relatively high risk profile of our financing activities. Note 2 to the Consolidated Financial Statements details the methods used to calculate the allowance for credit losses.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting standards require that all financial instruments be measured at fair value on initial recognition. In subsequent periods, they are measured at fair value, except for items classified as loans and receivables, or as other financial liabilities, which are measured at amortized cost. A more complete description of the accounting treatment of financial instruments is presented in Note 2 to the Consolidated Financial Statements.

Fair value is the price an unrelated knowledgeable party would pay or receive for a financial instrument. Published price quotations in an active market are the best evidence of fair value and, when they exist, BDC uses them to measure financial instruments. If a financial instrument's market is not public, BDC establishes its fair value with valuation techniques that use observable market inputs.

Subordinate financing and venture capital investments are composed mostly of investments in private companies and, as a result, no readily available market value and inputs exist. BDC must exercise judgement to determine their fair value. BDC derives its approach to measuring fair value from international guidelines. Due to the use of judgement, actual results may differ significantly from these estimates.

Note 2 to the Consolidated Financial Statements details the methods BDC uses to estimate the fair value of our investments.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC provides defined benefit pension plans and other benefit plans to eligible employees after they retire. These plans include a registered pension plan, supplemental pension plans and other plans, such as plans for post-retirement benefits.

Actuaries calculate the pension and other employee future benefits expense using various assumptions that management determines. These assumptions include discount rates, expected rates of return on assets, health care cost trends, inflation rates, projected salary increases and other factors. Actual experience that differs from the actuarial assumptions used will affect the amount of benefit obligation, and the expense could increase or decrease significantly in future years.

Notes 2 and 24 to the Consolidated Financial Statements present the key assumptions used and describe their sensitivity.

CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as well as appropriate disclosure controls and procedures.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and of financial statements prepared for external purposes in accordance with Canadian generally accepted accounting principles (GAAP). However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis so that BDC can make appropriate decisions about public disclosure.

BDC has a certification regime to evaluate the design and effectiveness of our internal control over financial reporting and our disclosure controls and procedures. This certification regime is based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

BDC has reached the following conclusion regarding the design and effectiveness of internal control over financial reporting:

As of March 31, 2011, certifying officers evaluated the design and effectiveness of internal control over financial reporting. Based on the results on the evaluation, they concluded that internal control over financial reporting is adequately designed and operates effectively to provide reasonable assurance about the reliability of financial reporting and of financial statements prepared in accordance with Canadian GAAP. During the year ended March 31, 2011, there was no change in internal control over financial reporting that has materially affected, or is reasonably likely to affect, internal control over financial reporting.

BDC has reached the following conclusion regarding the design and effectiveness of disclosure controls and procedures:

As of March 31, 2011, certifying officers evaluated the design and effectiveness of disclosure controls and procedures. Based on the results of the evaluation, they concluded that disclosure controls and procedures are adequately designed and operate effectively to provide reasonable assurance that material information disclosed is recorded, processed, summarized and presented within the requested timeframe, and that it is communicated to management on a timely basis for decision-making purposes.

FUTURE CHANGES IN REPORTING AND ACCOUNTING POLICIES

QUARTERLY FINANCIAL REPORTING

Effective April 1, 2011, the *Financial Administration Act* requires that all departments and parent Crown corporations prepare and make public a quarterly financial report within 60 days after the end of each of the first three quarters of the year.

The quarterly financial report will include:

- financial statements for the fiscal quarter and year to date, and comparative information for the preceding fiscal year;
- selected explanatory notes; and
- a narrative discussion outlining the financial results, risks and significant changes in relation to operations, personnel and programs, including explanations of financial results on a quarterly and year-to-date basis.

Management is responsible for ensuring all information in the quarterly financial report is consistent, where appropriate, with the unaudited quarterly financial statements. As required, BDC's first quarterly financial report, for the period ending June 30, 2011, will be available on the Bank's website within 60 days after the end of the quarter.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) announced that all Canadian publicly accountable enterprises must adopt International Financial Reporting Standards for fiscal years beginning on or after January 1, 2011.

In December 2009, the Public Sector Accounting Board confirmed that the government business enterprises must adhere to the standards applicable to publicly accountable enterprises.

As a result, BDC's first IFRS-compliant interim and annual financial statements are required for the reporting period beginning on April 1, 2011. These statements will also include comparative fiscal 2011 financial results restated to comply with IFRS.

Changeover Plan

The conversion to IFRS is a significant initiative. BDC's board of directors, audit committee and senior management are committed to ensuring its proper implementation.

The IFRS conversion process, which is progressing as planned, has been structured in three phases:

1. Diagnostics
2. Project Setup, Component Evaluation and Issues Resolution
3. Initial Conversion and Embedding

BDC has completed all three of these phases and has embedded IFRS reporting in its financial reporting systems. For details on the key activities and outputs of each of the phases, please refer to Section 5, *Accounting and Control Matters,* of the BDC 2010 Annual Report.

The International Accounting Standards Board (IASB) work plan anticipates the completion of several significant projects in calendar year 2011 and beyond. Therefore, although all phases of the IFRS conversion plan are complete, BDC continues to monitor standards issued by the IASB.

The IFRS impacts discussed in this annual report are based on current IFRS. Although the IASB's numerous projects could affect the differences identified below, it is unlikely that any of the anticipated changes will take effect in the year of conversion to IFRS. Because BDC does not know if, when and how much standards may change, we cannot determine the impact of these potential changes at this time.

It is also important to note that the differences between Canadian Generally Accepted Accounting Principles (GAAP) and IFRS, as well as the impacts on BDC's financial statements, have not yet been audited and may therefore be subject to changes.

Summary of Key Expected Changes

IFRS are premised on a conceptual framework similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure.

The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity, earnings and comprehensive income.

Reconciliation of Consolidated Equity (Unaudited)

($ in thousands)

As at	Notes	April 1, 2010	March 31, 2011
Shareholder's equity under Canadian GAAP		3,643,016	4,008,321
Differences increasing (decreasing) retained earnings:			
Post-employment benefits	(a)	(219,229)	(165,669)
Other		807	550
		(218,422)	**(165,119)**
Reclassification of preferred shares in liabilities	(c)	(230,000)	(230,000)
Equity attributable to the shareholder under IFRS		**3,194,594**	**3,613,202**
Non-controlling interests			
Joint ventures	(b)	170,548	139,221
Investments controlled by BDC	(b)	5,994	7,424
Equity attributable to non-controlling interests under IFRS		**176,542**	**146,645**
Consolidated equity under IFRS		**3,371,136**	**3,759,847**

Reconciliation of Consolidated Net Income (Unaudited)

($ in thousands)

For the year ended March 31, 2011	Notes	
Consolidated net income under Canadian GAAP		346,713
Differences increasing (decreasing) net income:		
Post-employment benefits	(a)	18,847
Dividends on preferred shares included in net income	(c)	(5,012)
Other		(257)
		13,578
Net income attributable to the shareholder under IFRS		**360,291**
Impact of consolidation of:		
Joint ventures	(b)	8,752
Investments controlled by BDC	(b)	(2,523)
Net income attributable to non-controlling interests under IFRS		**6,229**
Consolidated net income under IFRS		**366,520**

Reconciliation of Consolidated Comprehensive Income (Unaudited)

($ in thousands)

For the year ended March 31, 2011	Notes	
Consolidated comprehensive income under Canadian GAAP		370,317
Differences increasing (decreasing) comprehensive income:		
Increase in net income attributable to shareholder		13,578
Actuarial gains on post-employment benefits	(a)	34,713
		[illegible]
Comprehensive income attributable to the shareholder under IFRS		**418,608**
Increase in net income attributable to non-controlling interests		6,229
Comprehensive income attributable to non-controlling interests under IFRS		**6,229**
Consolidated comprehensive income under IFRS		**424,837**

NOTES TO RECONCILIATIONS

The following narrative explains the significant differences shown in the preceding reconciliations between Canadian GAAP and IFRS.

A POST-EMPLOYMENT BENEFITS

Actuarial gains and losses

Canadian GAAP	Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are subject to a minimum required amortization based on a "corridor" approach. Each fiscal year, actuaries determine whether the cumulative actuarial gain or loss is more than 10% of the greater of the fair value of the pension plan assets or accrued benefit obligations. Any amount that exceeds this 10% corridor is amortized through the income statement over the average remaining service period of active employees. Amounts that fall within the 10% corridor are not amortized.
IFRS	Under IFRS, three options are available to account for actuarial gains and losses: (i) the "corridor" approach; (ii) immediate recognition in net income; or (iii) immediate recognition in other comprehensive income (OCI). Of these three options, BDC has elected to recognize all actuarial gains and losses immediately in OCI. These gains and losses will directly affect retained earnings at the end of each period.
Impact on financial statements	Upon transition to IFRS, existing unamortized actuarial losses will be recognized in opening retained earnings. As a result, the accrued benefit asset of $145.4 million that exists under Canadian GAAP as at March 31, 2010, will be reversed and an additional accrued benefit liability of $82.5 million will be recorded. Consequently, opening retained earnings will decrease by $227.9 million. Subsequent to transition, pension expense will no longer include the amortization component of actuarial losses, which will reduce employee future benefits expense. Future actuarial gains and losses will be recorded directly in OCI and will significantly increase the volatility of comprehensive income and equity.

Attribution period

Canadian GAAP	The attribution period for recognizing the liability relating to post-employment benefits begins at the date of hire of the employee, as this date normally represents the time where the service provided by employees gives rise to benefits.
IFRS	For long-term benefit plans that contain both an age vesting requirement and a vesting requirement of consecutive years of service immediately before retirement, the attribution period begins when the employee meets both vesting requirements. Upon analysis of BDC's post-employment benefit plans, it was determined that employees must adhere to both vesting requirements to be eligible to receive benefits from the plan.
Impact on financial statements	Upon transition, the adjustment resulting from the change in the attribution period will result in a decrease in accrued benefit liability of $11.7 million. Consequently, opening retained earnings will increase by the same amount.

A POST-EMPLOYMENT BENEFITS (CONTINUED)

Measurement date

Canadian GAAP	The measurement date of the defined benefit obligation and plan assets can be up to three months prior to the date of the financial statements, provided that the entity adopts this practice consistently from year to year. BDC measured the defined benefit obligation and plan assets as of December 31, thus utilizing the three-month gap permitted in the standards.
IFRS	IFRS requires that the defined benefit obligation, as well as the fair value of plan assets, be determined as of the date of the financial statements. IFRS requires that the results of any valuation carried out prior to that date be updated for any material transactions and other material changes in circumstances.
Impact on financial statements	Upon transition, BDC re-measured its defined benefit obligation and assets for pension plans as at March 31. The impact upon transition and subsequent periods is not significant and is included in the total adjustment for post-employment benefits.

Past service costs

Canadian GAAP	Immediate recognition for vested interests is not required and past service costs are amortized by assigning an equal amount to each remaining service period.
IFRS	Under IFRS, immediate recognition for vested interests is required and remaining past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested.
Impact on financial statements	The impact upon transition and subsequent periods is not significant and is included in the total adjustment for post-employment benefits.

B CONSOLIDATION

Joint ventures

Canadian GAAP	BDC holds a portion of its subordinate financing portfolio (AlterInvest Investment Fund Inc., AlterInvest Fund L.P. and AlterInvest II Fund L.P.) through partnership funds with the Caisse de dépôt et placement du Québec. Under Canadian GAAP, these funds are proportionately consolidated into BDC's Consolidated Financial Statements by virtue of the fact that they are joint ventures.
IFRS	Based on the definition of control and joint venture under IFRS, BDC has concluded that these funds no longer meet the definition of a joint venture under IFRS, and consequently must be fully consolidated into BDC's financial statements upon conversion to IFRS.
Impact on financial statements	Upon transition, consolidation of these funds will increase assets by $173.8 million and increase liabilities by $3.3 million. Non-controlling interests of $170.5 million will be presented within equity and there will be no impact on opening retained earnings. Subsequent to transition, BDC consolidated net income will include net income attributable to non-controlling interests.

Venture capital and subordinate financing investments

Canadian GAAP	Venture capital and subordinate financing investments are measured and presented at fair value as per accounting guideline 18 (AcG-18), *Investment Companies*, and are therefore not consolidated into BDC's Consolidated Financial Statements.
IFRS	Under IFRS, BDC must consolidate investments over which it exercises control instead of carrying them at fair value. After analysis of subordinate financing and venture capital investments, it has been concluded that three investments must be consolidated.
Impact on financial statements	Upon transition, consolidation will result in an increase in assets of $6.1 million and an increase in liabilities of $0.1 million. Non-controlling interests, presented within equity, will increase by $6.0 million. There will be no impact on opening retained earnings. Subsequent to transition, BDC consolidated net income will include net income attributable to non-controlling interests.

C	RECLASSIFICATION OF PREFERRED SHARES
Canadian GAAP	Per Canadian GAAP, BDC's preferred shares are part of shareholder's equity.
IFRS	Under IFRS, if dividends on preferred shares are cumulative and based on a market rate, these preferred shares should be classified as a debt obligation. In addition, dividends should be recognized directly in net income. Because BDC's preferred shares are characterized by both of these conditions, they will be reclassified from equity to liabilities upon conversion to IFRS.
Impact on financial statements	Upon transition, preferred shares, amounting to $230.0 million, will be reclassified from shareholder's equity to liabilities. Subsequent to transition, dividends on preferred shares will be recorded in net income but will have no net impact on equity. This reclassification will not have an impact on statutory limitations and capital adequacy since, in the BDC Act, preferred shares are to be included in the calculation of capital regardless of their financial statements classification.

D FINANCIAL INSTRUMENT CLASSIFICATION

Venture capital and subordinate financing investments

Canadian GAAP	With the application of AcG-18, subordinate financing and venture capital investments are out of scope of section 3855, *Financial Instruments – Recognition and Measurement* for classification purposes.
IFRS	Investments held by investment companies become subject to financial instrument classification. BDC has designated both subordinate financing and venture capital investments to be at fair value through the profit or loss.
Impact on financial statements	Subordinate financing and venture capital investments are carried at fair value under both Canadian GAAP and IFRS, and therefore the new designation under IFRS will not have an impact on the consolidated financial results.

Preferred shares

Canadian GAAP	Preferred shares, presented as a component of equity, are not subject to financial instrument classification.
IFRS	Preferred shares, classified as debt, become subject to financial instrument classification. BDC has classified its preferred shares as other financial liabilities. Consequently, preferred shares are required to be measured at amortized cost.
Impact on financial statements	Preferred shares are carried at the same value under both Canadian GAAP and IFRS, and therefore the new classification under IFRS will not have an impact on the consolidated financial results.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Consolidated Financial Statements of the Business Development Bank of Canada (BDC) were prepared and presented by management in accordance with Canadian generally accepted accounting principles. The information contained therein normally includes amounts requiring estimations that have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the Consolidated Financial Statements.

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. BDC has a certification regime to evaluate the design and effectiveness of its internal control over financial reporting and its disclosure controls and procedures. This certification regime is based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Refer to the *Management Discussion & Analysis* section of the annual report for additional information (p. 53).

The system of internal controls is augmented by internal audit staff who conduct periodic reviews of different aspects of BDC's operations. In addition, the vice president and chief auditor, internal audit and the independent auditors have full and free access to the Audit Committee of the board of directors, which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The board of directors, through the Audit Committee, which comprises directors who are not employees of BDC, is responsible for reviewing and approving the audited annual Consolidated Financial Statements.

BDC's independent auditors, Raymond Chabot Grant Thornton LLP, Chartered Accountants and the Auditor General of Canada, have audited BDC's Consolidated Financial Statements and their report indicates the scope of their audit and their opinion on the Consolidated Financial Statements.

Jean-René Halde
President and Chief Executive Officer

Montreal, Canada
June 8, 2011

Paul Buron, CA
Executive Vice President
and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Minister of Industry,

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Business Development Bank of Canada and its subsidiary, which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Business Development Bank of Canada and its subsidiary as at March, 31 2011, and the results of their operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of Business Development Bank of Canada and its wholly-owned subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act*, the charter and by-laws of Business Development Bank of Canada and its wholly-owned subsidiary and the directive issued pursuant to Section 89 of the *Financial Administration Act*.

John Wiersema, FCA auditor
Interim Auditor General of Canada

Raymond Chabot Grant Thornton LLP

[1] Chartered accountant auditor permit no. 22092

June 8, 2011
Montréal, Canada

CONSOLIDATED BALANCE SHEET

As at March 31 ($ in thousands)

	2011	2010
Assets		
Cash and cash equivalents (Note 4)	**643,578**	1,013,757
Derivative assets (Note 20)	**67,122**	85,779
Loans and investments		
Asset-backed securities (Note 5)	**3,065,589**	3,274,974
Loans, net of allowance for credit losses (Note 6)	**13,731,011**	12,525,521
Subordinate financing investments (Note 7)	**250,375**	193,203
Venture capital investments (Note 8)	**407,793**	362,270
	17,454,768	16,355,968
Property and equipment (Note 9)	**18,524**	16,944
Intangible assets (Note 10)	**21,770**	19,406
Accrued benefit asset (Note 24)	**169,807**	145,434
Other assets (Note 11)	**24,499**	42,639
Total assets	**18,400,068**	17,679,927
Liabilities and shareholder's equity		
Liabilities		
Accounts payable and accrued liabilities	**86,203**	71,640
Accrued interest on borrowings	**10,094**	11,893
Borrowings (Note 12)		
Short-term notes	**9,715,686**	5,557,862
Long-term notes	**4,399,265**	8,166,357
	14,114,951	13,724,219
Derivative liabilities (Note 20)	**25,751**	73,233
Accrued benefit liability (Note 24)	**115,497**	113,059
Other liabilities (Note 13)	**39,251**	42,867
Total liabilities	**14,391,747**	14,036,911
Shareholder's equity		
Share capital (Note 14)	**2,744,400**	2,744,400
Contributed surplus	**27,778**	27,778
	2,772,178	2,772,178
Retained earnings	**1,211,550**	869,849
Accumulated other comprehensive income	**24,593**	989
	1,236,143	870,838
Total shareholder's equity	**4,008,321**	3,643,016
Total liabilities and shareholder's equity	**18,400,068**	17,679,927

Guarantees and contingent liabilities (Note 22)
Commitments (Note 23)

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Approved on behalf of the board of directors:

S E Bracken-Horrocks

Stan Bracken-Horrocks

Director
Chairperson, Audit Committee

Jean-René Halde

Jean-René Halde

Director
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31 ($ in thousands)

	2011	2010
Financing		
Interest and fee income	815,076	702,867
Interest expense	81,141	39,783
Net interest and fee income	733,935	663,084
Provision for credit losses (Note 6)	97,118	260,667
Income before operating and administrative expenses and net gains (losses) on financial instruments	636,817	402,417
Operating and administrative expenses (Note 17)	318,432	287,105
Income before net gains (losses) on financial instruments	318,385	115,312
Net realized gains (losses) on financial instruments	(5,618)	(5,768)
Net unrealized gains (losses) on financial instruments	(18,348)	(33,312)
Income from Financing	294,419	76,232
Subordinate Financing		
Interest income	24,682	19,807
Interest expense	5,605	4,188
Net interest income	19,077	15,619
Net realized gains (losses) on investments and other income	5,897	7,516
Change in unrealized appreciation (depreciation) of investments	3,377	1,507
Income before operating and administrative expenses	28,351	24,642
Operating and administrative expenses (Note 17)	17,245	14,428
Income from Subordinate Financing	11,106	10,214
Venture Capital		
Net realized gains (losses) on investments	(69,519)	(107,762)
Other income	3,662	2,828
Change in unrealized appreciation (depreciation) of investments	71,519	50,169
Net unrealized foreign exchange gains (losses) on investments	(7,114)	(33,241)
Net gains (losses) on foreign exchange contracts	5,583	26,034
Income (loss) before operating and administrative expenses	4,131	(61,972)
Operating and administrative expenses (Note 17)	22,730	12,165
Loss from Venture Capital	(18,599)	(74,137)
Consulting		
Revenue	24,564	28,129
Operating and administrative expenses (Note 17)	34,942	32,774
Loss from Consulting	(10,378)	(4,645)
Securitization		
Interest and fee income	90,521	11,211
Interest expense	21,395	1,595
Net interest and fee income	69,126	9,616
Net realized gains (losses) on investments	1,273	–
Loss on initial recognition	–	(7,543)
Income before operating and administrative expenses	70,399	2,073
Operating and administrative expenses (Note 17)	2,293	3,678
Income (loss) before net gains (losses) on financial instruments	68,106	(1,605)
Net realized gains (losses) on financial instruments	2,059	–
Income (loss) from Securitization	70,165	(1,605)
Net Income	346,713	6,059

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements and Note 16 provides additional information on earnings.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31 ($ in thousands)

	2011	2010
Net income	346,713	6,059
Other comprehensive income		
Net unrealized gains (losses) on available-for-sale assets	21,072	6,458
Reclassification to net income of losses (gains) on available-for-sale assets	(1,272)	–
Net change in unrealized gains (losses) on available-for-sale assets	19,800	6,458
Net unrealized gains (losses) on cash flow hedges	3,909	101
Reclassification to net income of losses (gains) on cash flow hedges	(105)	(849)
Net change in unrealized gains (losses) on cash flow hedges	3,804	(748)
Other comprehensive income	23,604	5,710
Comprehensive income	370,317	11,769

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended March 31 ($ in thousands)

2011

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): Available-for-sale assets	Cash flow hedges	Total	Shareholder's equity
March 31, 2010	**2,744,400**	**27,778**	**869,849**	**6,370**	**(5,381)**	**989**	**3,643,016**
Net income			346,713				**346,713**
Dividends on preferred shares			(5,012)				**(5,012)**
Net change in unrealized gains (losses) on available-for-sale assets				19,800		19,800	**19,800**
Net change in unrealized gains (losses) on cash flow hedges					3,804	3,804	**3,804**
March 31, 2011	**2,744,400**	**27,778**	**1,211,550**	**26,170**	**(1,577)**	**24,593**	**4,008,321**

2010

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): Available-for-sale assets	Cash flow hedges	Total	Shareholder's equity
March 31, 2009	1,288,400	27,778	878,107	(88)	(4,633)	(4,721)	2,189,564
Issue of common shares	1,456,000						1,456,000
Net income			6,059				6,059
Dividends on common shares			(7,915)				(7,915)
Dividends on preferred shares			(6,402)				(6,402)
Net change in unrealized gains (losses) on available-for-sale assets				6,458		6,458	6,458
Net change in unrealized gains (losses) on cash flow hedges					(748)	(748)	(748)
March 31, 2010	2,744,400	27,778	869,849	6,370	(5,381)	989	3,643,016

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31 ($ in thousands)

	2011	2010
Cash flows provided by operating activities		
Net income	346,713	6,059
Adjustments to determine net cash flows		
Amortization of loss on initial recognition on asset-backed securities	(2,640)	(819)
Net unrealized (gains) losses on financial instruments	18,348	33,312
Provision for credit losses	97,118	260,667
Net realized (gains) losses on investments	75,954	120,695
Unrealized foreign exchange (gains) losses on investments	7,114	33,241
Unrealized (gains) losses on foreign exchange contracts	189	(3,488)
Change in unrealized (appreciation) depreciation of investments	(74,896)	(51,676)
Amortization of property and equipment, and intangible assets	11,842	11,018
Pension and post-retirement benefits funding in excess of amounts expensed	(21,935)	(6,191)
Other	(2,874)	(2,744)
Changes in operating assets and liabilities		
Change in accrued interest receivable on financing and deferred loan fees	34,408	(4,046)
Change in accrued interest on borrowings	(1,799)	(5,078)
Net change in accounts payable and accrued liabilities	15,953	11,711
Net change in other assets and other liabilities	14,525	46,868
Cash flows provided by operating activities	518,020	449,529
Cash flows used by investing activities		
Maturities of securities	–	49,760
Disbursements for asset-backed securities	(300,000)	(3,353,740)
Repayments and proceeds on sale of asset-backed securities	533,160	78,413
Disbursements for loans	(3,333,706)	(3,870,041)
Repayments of loans	2,000,306	1,539,848
Disbursements for subordinate financing investments	(92,250)	(71,491)
Repayments for subordinate financing investments	31,020	29,696
Disbursements for venture capital investments	(86,133)	(58,187)
Proceeds on sale of venture capital investments	36,830	47,867
Acquisition of property and equipment	(9,503)	(8,984)
Acquisition of intangible assets	(6,283)	(14,192)
Net cash flows used by investing activities	(1,226,559)	(5,631,051)
Cash flows provided by financing activities		
Net change in short-term notes	4,156,292	3,574,186
Issue of long-term notes	305,000	3,179,103
Repayment of long-term notes	(4,116,530)	(2,549,552)
Issue of common shares	–	1,456,000
Dividends paid on common and preferred shares	(6,402)	(16,831)
Net cash flows provided by financing activities	338,360	5,642,906
Net increase (decrease) in cash and cash equivalents	(370,179)	461,384
Cash and cash equivalents at beginning of period	1,013,757	552,373
Cash and cash equivalents at end of period	643,578	1,013,757
Supplemental disclosure of cash flow information		
Interest paid in year	109,005	54,067

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

1. ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation that was established by an Act of Parliament on December 20, 1974, as the Federal Business Development Bank and continued under its current name by an Act of Parliament on July 13, 1995. BDC is wholly owned by the Government of Canada and is exempt from income taxes.

The objectives of BDC are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized enterprises, by providing a range of lending, investment and consulting services complementary to those of commercial financial institutions. BDC offers Canadian companies services tailored to meet the current needs of small and medium-sized enterprises while earning an appropriate return on investment capital, which is used to further BDC's activities.

BDC does not receive appropriations from the Government of Canada. To finance its objectives, BDC borrows funds from Her Majesty in Right of Canada acting through the Minister of Finance. Prior to April 21, 2008, BDC issued debt instruments, which were secured by the Government of Canada. *The Business Development Bank of Canada Act* (BDC Act) also allows the use of hybrid capital instruments to provide the capital required for its operations. The Crown would not be liable for payment of amounts owing under such capital instruments, of which none were outstanding as at March 31, 2011 and 2010.

BDC is for all purposes an agent of Her Majesty in Right of Canada. BDC is also named in Part I of Schedule III to the *Financial Administration Act* (FAA) and is accountable for its affairs to Parliament through the Minister of Industry. Pursuant to section 89 of the FAA, BDC, together with a number of other Crown corporations, has to comply with a directive issued in 2008 to ensure that Crown corporations give due consideration to the personal integrity of those they lend to or provide benefits to, in accordance with the government's policy to improve the accountability and integrity of federal institutions. In fiscal 2009, BDC completed the implementation of the requirements of section 89 and confirme that the directive has been met since then.

2. SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ significantly from those estimates. Significant estimates include allowances for credit losses on loans, actuarial estimates of employee future benefits and fair values of financial instruments, including venture capital and subordinate financing investments. A variation in the quality of the portfolio or economic conditions under which these estimates are made could result in significant changes in these management judgements. The significant accounting policies used in the preparation of these Consolidated Financial Statements are summarized on the following pages.

BASIS OF CONSOLIDATION

BDC conducts business through a variety of corporate structures, including a wholly owned subsidiary and joint ventures. The subsidiary is used for investment purposes and all interests held by the subsidiary are recorded as investments at fair value as per accounting guideline 18 (AcG-18), *Investment Companies*. BDC also has direct interests in joint ventures in which BDC exercises joint control through an agreement with third parties. All of the assets, liabilities, revenues and expenses of the wholly owned subsidiary, as well as BDC's proportionate share of the assets, liabilities, revenues and expenses of the joint ventures, are included in these Consolidated Financial Statements. All inter-company transactions and balances have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECOGNITION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

BDC recognizes all of its financial assets and financial liabilities, including derivatives, on its Consolidated Balance Sheet when it becomes a party to the contractual provisions of a financial instrument. All financial instruments are measured at fair value on initial recognition and are accounted for using settlement date accounting. Transaction costs are expensed as incurred.

Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. A financial instrument can also be designated as held-for-trading on initial recognition, even if the financial instrument does not meet the definition of held-for-trading (i.e., it was not acquired or incurred principally for the purpose of selling or repurchasing it in the near term). A financial instrument designated as held-for-trading cannot be reclassified out of this category while held or issued.

BDC determines for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedging relationship is designated as either a cash flow or fair value hedge. Derivatives not designated for hedge accounting are classified as held-for-trading.

Financial assets and financial liabilities classified or designated as held-for-trading are measured at fair value, with unrealized gains or losses recognized in net income. Available-for-sale financial assets are measured at fair value, with unrealized gains and losses being recognized in other comprehensive income (OCI). Financial assets classified as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash flows over the expected life of a financial asset or liability to its carrying amount.

The following table summarizes BDC's financial instruments classification as at March 31.

							2011
	Measured at fair value				Measured at amortized cost		
	Designated as held-for-trading	Classified as held-for-trading	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Assets							
Cash and cash equivalents	4,752	10,305	628,521				643,578
Derivative assets		66,181		941			67,122
Asset-backed securities			3,065,589				3,065,589
Loans, net of allowance for credit losses					13,731,011		13,731,011
Other assets					19,971		19,971
Liabilities							
Accounts payable and accrued liabilities						86,203	86,203
Accrued interest on borrowings						10,094	10,094
Short-term notes	4,752					9,710,934	9,715,686
Long-term notes	786,924					3,612,341	4,399,265
Derivative liabilities		23,118		2,633			25,751
Other liabilities						25,540	25,540

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	Measured at fair value				Measured at amortized cost		2010
	Designated as held-for-trading	Classified as held-for-trading	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Assets							
Cash and cash equivalents	47,872	7,886	957,999				1,013,757
Derivative assets		85,078		701			85,779
Asset-backed securities			3,274,974				3,274,974
Loans, net of allowance for credit losses					12,525,521		12,525,521
Other assets					40,342		40,342
Liabilities							
Accounts payable and accrued liabilities						71,640	71,640
Accrued interest on borrowings						11,893	11,893
Short-term notes	47,872					5,509,990	5,557,862
Long-term notes	1,231,374					6,934,983	8,166,357
Derivative liabilities		66,899		6,334			73,233
Other liabilities						28,209	28,209

Subordinate financing and venture capital investments are excluded from section 3855, *Financial instruments—recognition and measurement* for purposes of classification. Therefore, they have not been included in the tables above.

CASH EQUIVALENTS

Cash equivalents include short-term bank notes and repurchase agreements that have maturities at the original acquisition date of less than three months. Short-term bank notes have either been classified as available-for-sale or designated as held-for-trading, while repurchase agreements have been classified as available-for-sale.

Available-for-sale cash equivalents are measured at fair value, with unrealized gains and losses recorded in OCI until these instruments are sold. Held-for-trading bank notes are related to collateral received from derivative counterparties to cover risk exposure governed by International Swaps and Derivatives Association agreements (refer to the *Borrowings* section of this note for additional information). BDC records these bank notes at their fair value and records the mark-to-market adjustments in net unrealized gains or losses on financial instruments.

Gains and losses on disposal of both available-for-sale cash equivalents and held-for-trading bank notes are recorded in net realized gains or losses on financial instruments. Upon disposal of available-for-sale cash equivalents, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to net income as net realized gains or losses on financial instruments. Interest income earned on these financial assets is measured using the effective interest rate method and is included in net interest and fee income.

The fair value of short-term bank notes and repurchase agreements is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using market prices of similar cash equivalents.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, equity investments, indices, commodity prices or other financial measures. BDC uses derivative financial instruments to manage exposures to interest, currency and other market risks, and determines for each derivative whether hedge accounting can be applied. Derivatives not designated for hedge accounting are classified as held-for-trading and are measured at fair value, with changes in fair value recorded in net income.

BDC only applies hedge accounting for cash flow hedges and does not have any fair value hedges. BDC documents all hedge relationships and its risk management objectives, along with its strategy for carrying out the hedge transactions. This process includes linking these derivative instruments to assets and liabilities on the Consolidated Balance Sheet. BDC assesses whether the derivatives used in hedging transactions are effective in offsetting changes in cash flow of hedged items, both at inception and over the life of the hedge.

Derivatives that are designated and qualify as cash flow hedges are measured at fair value. The effective portion of changes in fair value of derivatives designated as cash flow hedges are recognized in OCI, while changes related to the ineffective portion are recorded in the Consolidated Statement of Income as net unrealized gains or losses on financial instruments.

When these hedging instruments are terminated early, the amounts previously recognized in OCI are reclassified to the Consolidated Statement of Income as net realized gains or losses on financial instruments during the periods when the variability in the cash flows of the hedged item affects net income.

All BDC derivatives are over-the-counter derivatives. The fair value of these derivatives is determined using current market data sourced from leading inter-dealer brokers, together with industry-standard mathematical models for estimating fair value.

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments. As at March 31, 2011 and 2010, BDC has no hybrid instrument including embedded derivatives that should be separated from the host contract.

ASSET-BACKED SECURITIES

Asset-backed securities are classified as available-for-sale assets and are initially recognized at fair value. A loss or gain on initial recognition is recorded if there is a difference between the security's yield and the market-demanded yield for similar investments. This gain or loss is amortized in interest and fee income over the life of the security using the effective interest rate method. Subsequently, the asset is measured at fair value with unrealized gains and losses recorded in OCI until the asset is derecognized, with the exception of impairment losses, which are recorded in the Consolidated Statement of Income in the year in which the asset is determined to have become impaired. Upon disposal of asset-backed securities, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to net income as net realized gains or losses on financial instruments. Interest income is calculated using the effective interest rate method and is recognized in the Consolidated Statement of Income.

BDC reviews asset-backed securities on an ongoing basis for possible impairment. An asset is considered impaired if its unrealized losses represent impairment that is considered to be other than temporary. In determining whether a loss is other than temporary, factors considered include the extent of the unrealized loss, the length of time that the security has been in an unrealized loss position, the financial condition and near-term prospects of the issuer, and the ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The fair value of asset-backed securities is calculated using an estimated yield curve that is derived from the Canadian government yield curve and asset-backed securities spread for comparable transactions. The result is adjusted to reflect the risk of the underlying assets and deal structure.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LOANS

Loans are classified as loans and receivables. They are recorded at amortized cost using the effective interest rate method. Loans are presented net of allowance for credit losses and deferred loan fees, and include accrued interest receivable. Interest on loans is recorded in interest and fee income using the effective interest rate method, except for loans that are considered impaired. Fees that are integral to originating or renegotiating a loan are deferred and recognized as interest and fee income over the expected term of the loan using the effective interest rate method.

Loans are considered impaired when there is deterioration in credit quality to the extent that BDC no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest and fee income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in BDC's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the Balance Sheet date. Loans are written off when all collection efforts have been exhausted and no further prospect of recovery is likely. The allowance for credit losses comprises specific and general allowances.

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent at the date of the impaired loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs.

Initial allowances are recorded through the provision for credit losses. When an impaired loan is measured on the basis of expected future cash flows, the increase in present value attributable to the passage of time is recorded as interest and fee income, and changes to the estimated realizable value are recorded against the provision for credit losses. When an impaired loan is measured only on the basis of the fair value of the security underlying the loan, changes in measurement arising subsequent to the initial recognition of impairment are recorded in the provision for credit losses.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio at the Balance Sheet date for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting lending operations, recent loan loss experiences, and trends in the credit quality of the loan portfolio.

BORROWINGS

Short-term notes, other than cash collateral received from counterparties, are measured at amortized cost. From time to time, BDC requests cash collateral from its counterparties when they exceed their limits under signed International Swaps and Derivatives Association agreements. These transactions are recorded as short-term notes, designated as held-for-trading and measured at fair value, with unrealized gains and losses recorded in net unrealized gains or losses on financial instruments. The fair values of short-term notes are determined using current market data.

BDC has issued two types of long-term notes: unstructured and structured. Unstructured long-term notes are recorded at amortized cost. Structured notes are notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. These notes have been designated as held-for-trading, as they are associated with derivatives classified as held-for-trading. They are recorded at fair value, with unrealized gains or losses recorded in net unrealized gains and losses on financial instruments. The fair value of structured notes is determined using current market data sourced from leading inter-dealer brokers, together with industry-standard mathematical models for estimating fair value.

Interest expense on borrowings is recorded using the effective interest rate method and is presented in the Consolidated Statement of Income as interest expense. Premiums and discounts on borrowings are amortized in interest expense over the life of the obligation using the effective interest rate method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS

Subordinate financing and venture capital investments are measured and presented at fair value as per AcG-18, *Investment Companies*. These investments are not subject to financial instrument classification, but are subject to financial instrument disclosure.

BDC's approach to fair value measurement for both subordinate financing and venture capital investments has been derived from international guidelines. Based on the type of investments BDC carries out, BDC uses (i) market-based methodologies, such as the quoted share price or the price of recent similar investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods. Significant assumptions used in the determination of fair value can include discount or capitalization rate, rate of return, and the weighting of forecasted earnings.

Gains and losses on investments are recognized in income at the time of disposal or write-off. Interest and dividends are recognized in income when reasonable assurance of realization is achieved. Changes in unrealized appreciation or depreciation of investments, including those related to foreign exchange, are measured and recognized in net income at the Balance Sheet date.

PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment and intangible assets are recorded at cost and amortized using the straight-line method over the estimated useful life of the assets, as follows.

Property and equipment	
Computer and telecommunications equipment	3 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	Lease term, which averages approximately 6 years
Intangible assets	
Systems development costs	3 to 7 years

Systems development costs include expenses directly associated with activities to develop or obtain software for internal use. Costs related to projects in progress are not subject to amortization.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC maintains a registered defined benefit pension plan, supplemental defined benefit pension plans and other benefit plans, such as post-retirement benefits for eligible employees.

The valuation of the pension and other employee future benefits obligation is determined annually on an actuarial basis using the projected benefit method, pro-rated on service and management's best estimate assumptions, such as the expected long-term rate of return on plan assets, discount rate, rate of compensation increase, inflation, retirement ages of employees and other factors.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The pension and other employee future benefits costs are determined using the cost of employee benefits for the current year's service, the interest cost on the accrued benefit obligation, the expected investment return on the actuarial value of plan assets, and the amortization of (i) net actuarial gains or losses and (ii) past service costs or gains. The fair value of plan assets is used for the purpose of calculating the expected return on plan assets. The fair value of plan assets is established as follows:

- short-term investments and bonds are valued at quoted market rates of return;
- public equity investments are valued at fair value based on published closing prices, or the last bid prices if the instruments are not traded on the valuation date; and
- private equity funds of funds are carried at fair value as determined by each general partner.

Actuarial gains or losses on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains or losses on the accrued benefit obligation arise from differences between actual and expected experience, and from changes in the actuarial assumptions used to determine the accrued benefit obligation.

Each fiscal year, actuaries determine whether the cumulative actuarial gain or loss is more than 10% of the greater of the fair value of the pension plan assets or accrued benefit obligations. Any amount that exceeds this 10% corridor is amortized to expense over the average remaining service period of BDC's active employees. Amounts that fall within the 10% corridor are not amortized.

The measurement date is December 31 for the pension plans and March 31 for the other benefit plans.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the Balance Sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. Foreign exchange gains and losses are included in net income for the year.

3. FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for any fiscal year beginning on or after January 1, 2011. Effective April 1, 2011, BDC will have to apply IFRS as a basis for financial reporting. The transition from current Canadian GAAP to IFRS is a significant undertaking that will affect BDC's reported financial position and results of operations. Refer to the *Management's Discussion & Analysis* section of the annual report for additional information (p. 54).

4.
CASH AND CASH EQUIVALENTS

	2011	2010
Cash	10,305	7,886
Short-term bank notes		
Available-for-sale	612,873	292,609
Held-for-trading	4,752	47,872
Repurchase agreements available-for-sale	15,648	665,390
	633,273	1,005,871
Cash and cash equivalents	643,578	1,013,757

5.
ASSET-BACKED SECURITIES

	2011	2010
Principal amount	3,043,441	3,275,328
Unamortized loss on initial recognition	(4,084)	(6,724)
Cumulative fair value appreciation	26,232	6,370
Carrying value	3,065,589	3,274,974
Yield	2.78 %	2.22 %
Unrealized gains recognized in OCI	19,861	6,370

6.
LOANS

The following table summarizes loans outstanding as at March 31. Floating-rate loans are classified based on their maturity date, and fixed-rate loans are classified based on their repricing or maturity date, whichever is earlier.

2011	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	General allowance	Specific allowance	Total allowance	Total net amount
Performing	748,733	3,057,810	10,112,957	13,919,500	(524,500)	–	(524,500)	13,395,000
Impaired	70,006	128,492	387,689	586,187	–	(250,176)	(250,176)	336,011
Loans as at March 31, 2011	818,739	3,186,302	10,500,646	14,505,687	(524,500)	(250,176)	(774,676)	13,731,011

2010	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	General allowance	Specific allowance	Total allowance	Total net amount
Performing	562,618	2,956,503	9,171,252	12,690,373	(524,500)	–	(524,500)	12,165,873
Impaired	28,746	188,166	403,589	620,501	–	(260,853)	(260,853)	359,648
Loans as at March 31, 2010	591,364	3,144,669	9,574,841	13,310,874	(524,500)	(260,853)	(785,353)	12,525,521

6. LOANS (CONTINUED)

ALLOWANCE FOR CREDIT LOSSES

	2011	2010
Balance at beginning of year	785,353	665,045
Write-offs and other	(111,898)	(141,609)
Interest income due to accretion	(6,505)	(7,540)
Recoveries	10,608	8,790
	677,558	524,686
Provision for credit losses	97,118	260,667
Balance at end of year	774,676	785,353

CREDIT RISK

The principal collaterals held as security and other credit enhancements for loans include (i) various securities on assets; (ii) personal and corporate guarantees; (iii) letters of credit; (iv) assignments of life insurance; (v) assignments or hypothec of third-party loans; and (vi) assignments of lease.

As at March 31, 2011, $13.7 million ($13.2 million in 2010) of the impaired loans was secured by assets that BDC had the power to sell in order to satisfy borrower commitments.

The following table summarizes performing loans outstanding as at March 31, classified by client credit risk exposure based on BDC classification.

Client credit risk exposure	2011		2010	
Low	2,638,724	19.0 %	2,593,738	20.4 %
Medium	7,014,714	50.4 %	6,389,652	50.4 %
High	4,266,062	30.6 %	3,706,983	29.2 %
Performing loans outstanding	13,919,500	100.0 %	12,690,373	100.0 %

The following table summarizes performing loans outstanding as at March 31, classified by security risk exposure coverage.

Secured risk exposure	% of security shortfall at authorization	2011		2010	
Secured financing	Less than 30%	11,187,368	80.4 %	10,292,573	81.1 %
Partially secured financing	Between 31% and 60%	1,438,735	10.3 %	1,329,673	10.5 %
Leverage financing	Over 60%	1,293,397	9.3 %	1,068,127	8.4 %
Performing loans outstanding		13,919,500	100.0 %	12,690,373	100.0 %

BDC considers a loan past due when a client has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either less than three months past due or collection efforts are reasonably expected to result in repayment.

Loans past due but not impaired	Within 1 month	2 to 3 months	Over 3 months	Total
As at March 31, 2011	84,440	39,011	23,867	147,318
As at March 31, 2010	87,974	17,220	20,180	125,374

The concentrations of the total loans outstanding, by province and territory, and by industry sector, as at March 31 are set out in the following tables. The largest concentration in one individual or closely related group of clients was less than 1% in 2011 and 2010.

6. LOANS (CONTINUED)

Geographic location	2011		2010	
Newfoundland and Labrador	554,681	3.8%	516,073	3.9%
Prince Edward Island	41,656	0.3%	43,086	0.3%
Nova Scotia	396,227	2.7%	379,981	2.9%
New Brunswick	466,658	3.2%	484,343	3.6%
Quebec	4,708,670	32.5%	4,248,174	32.0%
Ontario	4,364,728	30.1%	4,141,783	31.1%
Manitoba	326,301	2.3%	306,700	2.3%
Saskatchewan	320,845	2.2%	257,983	1.9%
Alberta	1,580,473	10.9%	1,415,605	10.6%
British Columbia	1,644,360	11.3%	1,421,442	10.7%
Yukon	70,524	0.5%	66,960	0.5%
Northwest Territories and Nunavut	30,564	0.2%	28,744	0.2%
Total loans outstanding	14,505,687	100.0%	13,310,874	100.0%

Industry sector	2011		2010	
Manufacturing	3,873,423	26.7%	3,942,018	29.6%
Wholesale and retail trade	3,092,093	21.3%	2,795,682	21.0%
Tourism	1,778,292	12.3%	1,563,881	11.7%
Commercial properties	1,355,801	9.3%	1,152,679	8.7%
Construction	1,083,297	7.5%	929,218	7.0%
Transportation and storage	799,962	5.5%	710,104	5.3%
Business services	641,932	4.4%	571,678	4.3%
Other	1,880,887	13.0%	1,645,614	12.4%
Total loans outstanding	14,505,687	100.0%	13,310,874	100.0%

7. SUBORDINATE FINANCING INVESTMENTS

BDC maintains a medium- to high-risk portfolio of subordinate financing investments. The following table summarizes subordinate financing investments outstanding as at March 31. Floating-rate investments are classified based on their maturity date, and fixed-rate investments are classified based on their repricing or maturity date, whichever is earlier.

Investments	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Cumulative fair value depreciation	Total fair value
As at March 31, 2011	29,891	193,386	30,958	254,235	(3,860)	250,375
As at March 31, 2010	18,674	157,468	23,891	200,033	(6,830)	193,203

Subordinate financing investments have subordinate status in relationship to the other debt held by a company. When possible, BDC security includes a first rank on intellectual property of the borrower. The principal collaterals held as security and other credit enhancements for investments include (i) various securities on assets; (ii) personal and corporate guarantees; (iii) assignments of life insurance; and (iv) postponements of third-party loans.

7. SUBORDINATE FINANCING INVESTMENTS (CONTINUED)

The concentrations of subordinate financing investments, as at March 31 are set out in the tables below. The largest concentration in one individual or closely related group of clients is 2.8% of total subordinate financing investments at cost (3.5% in 2010). Subordinate financing's portfolio is composed primarily of debentures.

Geographic location		2011		2010
	Fair value	Cost	Fair value	Cost
Newfoundland and Labrador	13,986	13,460	13,042	13,343
Nova Scotia	4,526	4,716	4,139	4,294
New Brunswick	7,516	7,726	4,519	5,203
Quebec	122,087	125,138	102,370	106,970
Ontario	62,488	63,156	42,057	43,700
Manitoba	3,536	3,380	1,329	1,126
Saskatchewan	343	338	330	337
Alberta	22,117	21,854	15,458	15,242
British Columbia	13,776	14,467	9,959	9,818
Total investments	250,375	254,235	193,203	200,033

Industry sector		2011		2010
	Fair value	Cost	Fair value	Cost
Manufacturing	91,770	94,715	68,829	76,608
Wholesale and retail trade	44,648	47,096	29,871	38,352
Business services	11,712	46,819	6,403	31,558
Construction	48,361	12,660	39,591	6,313
Transportation and storage	6,364	5,669	6,235	6,100
Tourism	3,014	2,873	214	258
Other	44,506	44,403	42,060	40,844
Total investments	250,375	254,235	193,203	200,033

BDC holds a portion of its portfolio through its joint ventures with the Caisse de dépôt et placement du Québec. BDC acts as the general partner of the following entities: (i) AlterInvest Fund L.P.; (ii) AlterInvest II Fund L.P.; and (iii) AlterInvest Investment Fund Inc. The following table summarizes BDC's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows relating to its interests in the joint ventures.

	2011	2010
Current assets	7,492	8,054
Subordinate financing investments	138,024	163,910
Current liabilities	101	200
Net interest income	17,877	19,274
Realized gains and losses on investments and other income	(3,384)	(636)
Change in unrealized appreciation (depreciation) of investments	538	1,145
Operating and administrative expenses	73	71
Income from subordinate financing investments	14,958	19,712
Cash flows provided by (used in):		
Operating activities	15,322	16,583
Investing activities	18,570	(16,302)
[illegible]	(34,488)	[illegible]

8.
VENTURE CAPITAL INVESTMENTS

BDC maintains a high-risk portfolio of venture capital investments that is focused on early-stage and fast-growing companies with promising positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 4.3% of total venture capital investments at cost (2.8% in 2010).

	2011		2010	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Biotechnology and pharmacology	**75,837**	**112,422**	72,112	116,500
Medical and health	**30,761**	**39,729**	33,113	41,783
Information technology	**102,840**	**90,106**	77,408	101,904
Electronics	**55,131**	**70,568**	67,480	88,771
Communications	**44,355**	**50,276**	37,136	51,059
Industrial	**6,704**	**13,007**	11,750	21,190
Other	**3,334**	**3,250**	3,805	4,000
Total direct investments	**318,962**	**379,358**	302,804	425,207
Funds	**88,831**	**114,130**	59,466	87,162
Venture capital investments	**407,793**	**493,488**	362,270	512,369

The following table summarizes the venture capital portfolio, by type of investment.

	2011		2010	
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**54,248**	**87,508**	42,328	85,812
Preferred shares	**232,715**	**251,988**	226,390	288,354
Debentures	**31,999**	**39,862**	34,086	51,041
Funds	**88,831**	**114,130**	59,466	87,162
Venture capital investments	**407,793**	**493,488**	362,270	512,369

9. PROPERTY AND EQUIPMENT

			2011			2010
	Cost	Accumulated amortization	Carrying value	Cost	Accumulated amortization	Carrying value
Computer and telecommunications equipment	19,913	12,260	7,653	14,116	8,841	5,275
Furniture, fixtures and equipment	17,530	13,417	4,113	15,648	11,650	3,998
Leasehold improvements	36,525	29,767	6,758	34,701	27,030	7,671
Total	73,968	55,444	18,524	64,465	47,521	16,944

10. INTANGIBLE ASSETS

			2011			2010
	Cost	Accumulated amortization	Carrying value	Cost	Accumulated amortization	Carrying value
Systems development costs	56,279	39,124	17,155	41,595	35,205	6,390
Projects in progress	4,615	–	4,615	13,016	–	13,016
Total	60,894	39,124	21,770	54,611	35,205	19,406

11. OTHER ASSETS

	2011	2010
Financial instruments		
Future margin receivable[1]	**5,791**	23,479
Interest receivable on asset-backed securities	**3,360**	2,318
Interest receivable on derivatives	**2,694**	4,937
Accounts receivable from consulting clients	**2,319**	2,338
Other	**5,807**	7,270
	19,971	40,342
Other	**4,528**	2,297
Total other assets	**24,499**	42,639

(1) Represents contractual cash flows to be received on the termination date of certain derivative financial instruments.

12. BORROWINGS

The table below presents the outstanding short-term notes as at March 31.

			2011		2010	
Maturity date	Effective rate	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-term notes/ other financial liabilities						
2011	0.14% – 0.23%	CAD	–	–	5,510,000	5,509,990
2012	0.83% – 0.96%	CAD	**9,711,000**	**9,710,934**	–	–
				9,710,934		5,509,990
Short-term notes/held-for-trading						
2011	0.00%	USD	–	–	49,517	47,872
2012	0.00%	USD	**4,808**	**4,752**	–	–
				4,752		47,872
Total short-term notes				**9,715,686**		5,557,862

12. BORROWINGS (CONTINUED)

The table below presents the outstanding long-term notes as at March 31. The maturity dates for extendable notes are presented based on their first option date. Some notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by BDC or the note holders. As at March 31, 2011, long-term notes of $139,793 were redeemable prior to maturity ($428,352 as at March 31, 2010).

					2011		2010
Maturity date	2011 Effective rate*	2010 Effective rate*	Currency	Principal amount	Carrying value	Principal amount	Carrying value
Long-term notes/ other financial liabilities							
2011		0.15 % – 4.75 %	CAD	–	–	2,206,000	2,205,973
2012	0.83 % – 4.75 %	0.13 % – 4.75 %	CAD	500,000	500,000	600,000	600,000
2013	0.83 % – 1.23 %	0.13 % – 3.43 %	CAD	2,578,169	2,578,169	2,677,403	2,677,403
2014	0.83 % – 2.10 %	0.15 % – 3.51 %	CAD	534,172	534,172	1,416,607	1,416,607
2015		3.52 % – 3.54 %	CAD	–	–	20,000	20,000
2016		3.43 %	CAD	–	–	15,000	15,000
					3,612,341		6,934,983
Long-term notes/ held-for-trading							
2011		0.12 %	USD	–	–	10,000	10,140
		(0.03)% – 0.33 %	CAD	–	–	115,405	118,926
2012	0.75 % – 0.80 %	(0.04)% – 0.02 %	CAD	56,739	71,246	91,012	111,849
2013	0.93 %	0.16 %	CAD	5,000	7,129	5,000	6,777
2014	0.90 % – 0.93 %	0.10 % – 0.16 %	CAD	97,324	101,982	98,560	99,514
2015	0.92 %	0.13 %	JPY	500,000	6,044	500,000	5,989
	0.90 % – 0.93 %	0.10 % – 0.16 %	CAD	124,979	119,035	125,770	115,088
2016	0.90 %	0.12 %	CAD	19,118	20,365	19,767	20,828
2017		0.14 %	JPY	–	–	1,200,000	12,593
2018	0.97 % – 1.00 %	0.11 % – 0.22 %	JPY	3,600,000	42,074	6,300,000	66,800
2019	0.95 % – 0.97 %	0.10 % – 0.18 %	JPY	2,100,000	24,077	5,900,000	61,791
2020	0.92 % – 0.96 %	0.10 % – 0.20 %	JPY	3,000,000	34,169	15,200,000	161,193
2021	0.93 % – 0.95 %	0.10 % – 0.18 %	JPY	3,660,000	41,090	5,360,000	53,337
2022		0.17 % – 0.20 %	JPY	–	–	1,500,000	15,938
	0.85 % – 4.31 %	0.08 % – 4.31 %	CAD	292,601	316,422	292,601	306,129
2023	0.93 %	(0.33)% – 0.20 %	JPY	300,000	3,291	6,100,000	64,482
					786,924		1,231,374
Total long-term notes					4,399,265		8,166,357

* The effective rates on long-term notes are established after giving effect to swap contracts, when applicable, and refer to yield to maturity for fixed-rate issues and yield to reset for floating-rate issues.

12. BORROWINGS (CONTINUED)

As at March 31, 2011, long-term notes recorded at amortized cost included $2,187,341 of funding for asset-backed securities ($3,087,010 in 2010).

The types of notes included in the previous table are as follows.

	2011	2010
Interest-bearing notes	**3,995,983**	7,316,730
Fixed- and inverse floating-rate notes	**45,638**	109,437
Managed futures	**26,253**	104,375
Notes linked to equity indices	**111,200**	142,332
Notes linked to currency rates	**69,543**	189,523
Notes linked to swap rates	–	9,857
Other structured notes	**150,648**	294,103
Total long-term notes	**4,399,265**	8,166,357

As at March 31, 2011, the payment requirements of long-term notes based on notional amounts are as follows.

2012	**651,378**
2013	**2,690,374**
2014	**429,651**
2015	**132,046**
2016	**19,118**
2017 and later	**437,957**
	4,360,524

BDC has an available overdraft facility of $75 million. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2011 and 2010, BDC was not in an overdraft position.

13.
OTHER LIABILITIES

	2011	2010
Financial instruments		
Deposits from clients	18,395	20,227
Other	7,145	7,982
	25,540	28,209
Deferred income	6,252	6,868
Other	7,459	7,790
Total other liabilities	**39,251**	42,867

14.
SHARE CAPITAL

Authorized:
(a) an unlimited number of preferred shares without par value, non-voting, issuable in series; and
(b) an unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding		2011			2010		
		Number of shares	Amount	Dividend rate	Number of shares	Amount	Dividend rate
Preferred shares							
Class A	– Series 1	500,000	50,000	2.625%	500,000	50,000	3.535%
	– Series 2	500,000	50,000	1.815%	500,000	50,000	1.815%
	– Series 3	500,000	50,000	2.205%	500,000	50,000	2.205%
	– Series 4	400,000	40,000	1.400%	400,000	40,000	1.400%
	– Series 5	400,000	40,000	1.690%	400,000	40,000	1.690%
			230,000			230,000	
Common shares		25,144,000	2,514,400		25,144,000	2,514,400	
Total outstanding share capital			2,744,400			2,744,400	

Class A preferred shares have a fixed, preferential and cumulative dividend, and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully paid common shares on the basis of one common share for each Class A preferred share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by BDC on a pro-rata basis, as if such dividends had accrued from day to day. The dividend rates on Class A preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the Consolidated Revenue Fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

15.
STATUTORY LIMITATIONS AND CAPITAL ADEQUACY

STATUTORY LIMITATIONS

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings (as shown in the Consolidated Balance Sheet) and contingent liabilities of BDC in the form of guarantees related to financial services over the total shareholder's equity, which excludes accumulated other comprehensive income (AOCI). BDC's ratio at March 31, 2011, was 3.5:1 (3.8:1 as at March 31, 2010).

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments), must not at any time exceed $3.0 billion. As at March 31, 2011, these amounts totalled $2.772 billion ($2.772 billion as at March 31, 2010).

CAPITAL ADEQUACY

Treasury Board of Canada, Secretariat provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and loss provisions sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. Adequate capital ratios reflect the relative risk of BDC's assets. The recommended capital is at least 5% for asset-backed securities; 10% for term loans and 25% for quasi-equity loans, net of allowance for credit losses; 25% for subordinate financing investments; and 100% for venture capital investments. BDC also established capital adequacy ratios for loan guarantees and letters of credit to reflect the relative risk of these guarantees (refer to note 22 for additional information). In addition, the capital level is also managed to ensure that BDC can honour its commitments as they become due (refer to Note 23 for additional information on BDC commitments).

The following table presents the minimum capital required as at March 31. During the year, BDC operated in accordance with its capital adequacy guidelines.

			2011			2010
	Carrying value	Capital ratio	Minimum capital required	Carrying value	Capital ratio	Minimum capital required
Asset-backed securities	3,065,589	20 : 1	153,279	3,274,974	20 : 1	163,749
Loans, net of allowance for credit losses						
Term loans	12,619,162	10 : 1	1,261,916	11,710,490	10 : 1	1,171,049
Quasi-equity	1,111,849	4 : 1	277,962	815,031	4 : 1	203,758
Total loans	13,731,011		1,539,878	12,525,521		1,374,807
Subordinate Financing	250,375	4 : 1	62,594	193,203	4 : 1	48,301
Venture Capital	407,793	1 : 1	407,793	362,270	1 : 1	362,270
Loan guarantees(1)	13,911	3 : 1	4,637	10,780	3 : 1	3,593
Letters of credit(1)	48,484	10 : 1	4,848	50,766	10 : 1	5,077
Total	17,517,163		2,173,029	16,417,514		1,957,797
Actual capital(2)			4,009,898			3,648,397
Capital adequacy status			1,836,869			1,690,600

(1) As the carrying value for letters of credit and loan guarantees is nil, the value represents the committed amount (refer to Note 22).

(2) The actual capital excludes accumulated other comprehensive income on cash flow hedges (accumulated loss of $1,577 in 2011 and $5,381 in 2010).

16.

INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENT OF INCOME

	2011	2010
Interest income		
Financing	801,546	656,773
Subordinate financing	24,682	19,807
Securitization	89,450	10,305
	915,678	686,885
Interest expense		
Interest on notes	99,934	37,717
Interest on swaps	13,744	10,944
Interest income on cash equivalents and securities	(6,693)	(3,594)
Other	221	328
	107,206	45,395
Net realized gains (losses) on financial instruments		
Designated as held-for-trading	75	–
Cash flow hedge	104	849
Classified as other financial liabilities	(3,738)	(6,617)
	(3,559)	(5,768)
Net unrealized gains (losses) on financial instruments		
Designated as held-for-trading	(21,552)	16,627
Classified as held-for-trading	3,172	(49,921)
Cash flow hedge	32	(18)
	(18,348)	(33,312)
Amortization of:		
Loss on initial recognition of asset-backed securities	(2,640)	(819)
Premiums and discounts on borrowings	(29)	516
Property and equipment	7,923	7,418
Intangible assets	3,919	3,600

17.
OPERATING AND ADMINISTRATIVE EXPENSES

						2011
	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Total
Salaries and benefits	208,674	15,140	13,557	19,600	1,342	258,313
Premises and equipment	34,727	511	1,068	695	116	37,117
Other expenses	75,031	1,594	8,105	14,647	835	100,212
	318,432	17,245	22,730	34,942	2,293	395,642

						2010
	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Total
Salaries and benefits	186,154	12,507	8,483	16,203	1,098	224,445
Premises and equipment	32,001	727	1,535	1,620	53	35,936
Other expenses	68,950	1,194	2,147	14,951	2,527	89,769
	287,105	14,428	12,165	32,774	3,678	350,150

18.
FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents BDC's estimate of the amount of consideration that would be agreed upon to exchange a financial instrument in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. However, many financial instruments lack an available trading market. In these cases, fair values are estimated using present value and other valuation techniques that are significantly affected by the assumptions used. As such, the fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The following table provides a comparison of the carrying and fair values of BDC financial instruments.

			2011			2010
	Fair value	Carrying value	Fair value over carrying value	Fair value	Carrying value	Fair value over carrying value
Balance Sheet						
Assets						
Cash and cash equivalents	643,578	643,578	–	1,013,757	1,013,757	–
Derivative assets	67,122	67,122	–	85,779	85,779	–
Asset-backed securities	3,065,589	3,065,589	–	3,274,974	3,274,974	–
Loans, net of allowance for credit losses	13,763,771	13,731,011	32,760	12,575,743	12,525,521	50,222
Subordinate financing investments	250,375	250,375	–	193,203	193,203	–
Venture capital investments	407,793	407,793	–	362,270	362,270	–
Other financial assets	19,971	19,971	–	40,342	40,342	–
	18,218,199	18,185,439	32,760	17,546,068	17,495,846	50,222
Liabilities						
Accounts payable and accrued liabilities	86,203	86,203	–	71,640	71,640	–
Accrued interest on borrowings	10,094	10,094	–	11,893	11,893	–
Short-term notes	9,715,686	9,715,686	–	5,557,862	5,557,862	–
Long-term notes	4,401,841	4,399,265	2,576	8,171,189	8,166,357	4,832
Derivative liabilities	25,751	25,751	–	73,233	73,233	–
Other financial liabilities	25,540	25,540	–	28,208	28,208	–
	14,265,115	14,262,539	2,576	13,914,025	13,909,193	4,832
Total			30,184			45,390

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL INSTRUMENTS CARRIED AT AMORTIZED COST

SHORT TERM IN NATURE

The fair value of the following assets and liabilities, which are carried at amortized cost, is assumed to approximate carrying value, as the items are short term in nature:

- other assets classified as loans and receivables;
- accounts payable and accrued liabilities;
- accrued interest on borrowings;
- short-term notes classified as other financial liabilities; and
- other liabilities classified as other financial liabilities.

LOANS

The fair value of performing floating-rate loans is assumed to equal carrying value. For performing fixed-rate loans, fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans with corresponding remaining maturity. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 *Significant Accounting Policies* under the heading *Allowance for credit losses*.

LONG-TERM NOTES CLASSIFIED AS OTHER FINANCIAL LIABILITIES

The fair value of unstructured long-term notes is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar notes.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The assumptions and valuation techniques used to estimate the fair value of those financial assets and liabilities that are measured at fair value have been disclosed in Note 2 *Significant Accounting Policies*.

All financial instruments measured at fair value must be categorized into one of three hierarchy levels for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair value of assets and liabilities and is defined below:

- Level 1 - valuation techniques based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 - valuation techniques with at least one significant unobservable market input.

				2011
	Fair value measurements using			Assets/liabilities
	Level 1	Level 2	Level 3	at fair value
Assets				
Cash and cash equivalents	10,305	633,273	–	643,578
Derivative assets	–	67,122	–	67,122
Asset-backed securities	–	3,065,589	–	3,065,589
Subordinate financing investments	–	–	250,375	250,375
Venture capital investments	22,443	–	385,350	407,793
	32,748	3,765,984	635,725	4,434,457
Liabilities				
Short-term notes/held-for-trading	–	4,752	–	4,752
Long-term notes/held-for-trading	–	786,924	–	786,924
Derivative liabilities	–	25,751	–	25,751
	–	817,427	–	817,427

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

				2010
	Fair value measurements using			Assets/liabilities
	Level 1	Level 2	Level 3	at fair value
Assets				
Cash and cash equivalents	7,886	1,005,871	–	1,013,757
Derivative assets	–	85,779	–	85,779
Asset-backed securities	–	3,274,974	–	3,274,974
Subordinate financing investments	–	–	193,203	193,203
Venture capital investments	17,655	–	344,615	362,270
	25,541	4,366,624	537,818	4,929,983
Liabilities				
Short-term notes/held-for-trading	–	47,872	–	47,872
Long-term notes/held-for-trading	–	1,231,374	–	1,231,374
Derivative liabilities	–	73,233	–	73,233
	–	1,352,479	–	1,352,479

The following table presents the changes in fair value measurement for financial instruments included in level 3.

			2011
	Subordinate financing investments	Venture capital investments	Total
Fair value at April 1, 2010	193,203	344,615	537,818
Net realized gains (losses) on investments	(7,707)	(65,336)	(73,043)
Change in unrealized appreciation (depreciation) of investments	3,377	66,769	70,146
Net unrealized foreign exchange gains (losses) on investments	–	(6,167)	(6,167)
Disbursements for investments	92,260	87,468	179,728
Repayments and proceeds on sale of investments	(30,758)	(31,872)	(62,630)
Transfers out of level 3 to level 1	–	(10,127)	(10,127)
Fair value at March 31, 2011	250,375	385,350	635,725

			2010
	Subordinate financing investments	Venture capital investments	Total
Fair value at April 1, 2009	155,070	416,708	571,778
Net realized gains (losses) on investments	(5,387)	(97,507)	(102,894)
Change in unrealized appreciation (depreciation) of investments	1,507	25,161	26,668
Net unrealized foreign exchange gains (lossess) on investments	–	(30,659)	(30,659)
Disbursements for investments	71,709	58,928	130,637
Repayments and proceeds on sale of investments	(29,696)	(28,016)	(57,712)
Fair value at March 31, 2010	193,203	344,615	537,818

19.
RISK MANAGEMENT

GOVERNANCE

Risk is an inherent feature of the financial sector. BDC uses an enterprise risk management (ERM) framework based on its financial autonomy and on its obligation to be commercially viable.

BDC's overall risk governance structure, and the roles and responsibilities of risk groups and committees, are described in the *Risk Management* section of the annual report (p. 34).

NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

BDC is exposed to the following financial risks: credit risk, market risk and liquidity risk. This note provides the definitions of these risks and describes BDC's risk management policies and risk measurements.

CREDIT RISK

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty in discharging its contractual commitment or obligation to BDC. For the purposes of credit risk activities, BDC distinguishes between credit risk arising from asset-backed securities issuers, borrowers and investees, as well as counterparties to treasury activities.

Asset-backed securities

To mitigate asset-backed securities credit risk, securities purchased must be rated AAA by two independent rating agencies at the time of purchase. The securities are backed by loans and leases on vehicles and equipment, as well as dealer floor plan loans. The rating is derived by evaluating the transaction structure and the credit enhancement supporting the securities. On an ongoing basis, BDC receives portfolio reports that describe the performance of the securities, along with the cash flows associated with the collateral. The maximum exposure to credit risk of asset-backed securities is limited to the carrying value of the securities.

Borrowers and investees

BDC uses a number of methods to manage credit exposures from loans and investments, including the following:

- a standardized credit risk rating classification;
- credit policies, guidelines and directives, communicated to officers whose activities and responsibilities include credit granting and risk assessment, which ensure early recognition of problem accounts and immediate implementation of steps to protect BDC's assets;
- independent reviews of credit valuation, risk classification and credit management procedures performed by Internal Audit, which reports the results to senior management, the president and chief executive officer, and the Audit Committee;
- approval of larger transactions by the Credit/Investment and Risk Committee of the board of directors, based on recommendations made by the Credit Risk Committee or the Venture Capital Committee;
- concentration limits that are monitored to protect BDC from being overly concentrated in any one province or industry sector;
- monitoring to ensure that exposure to a single borrower or associated borrowers, unless approved by the board of directors, does not represent more than 10% of the shareholder's equity;
- annual reviews of individual credit facilities;
- analysis of venture capital investments using a performance quadrant classification;
- semi annual valuation committee for investments; and
- a watch list report recording accounts with evidence of weakness, as well as an impaired loan report covering loans that show impairment to the point where a loss is possible.

19. RISK MANAGEMENT (CONTINUED)

The maximum exposure to credit risk from borrowers and investees is limited to the carrying amount of the loans and investments in debentures. Refer to Note 6 *Loans*, Note 7 *Subordinate Financing Investments* and Note 8 *Venture Capital Investments* for additional information on loans and investment portfolios.

Treasury activities

In order to mitigate the credit risk inherent in treasury activities, the Treasury Risk Management Unit identifies and measures BDC's credit risk exposure related to derivative counterparties and issuers of cash equivalents.

The notional amounts of derivative financial instruments held by BDC are not indicative of the credit risk exposure associated with the contracts. The risk of loss is related to the possibility that a counterparty to a transaction will not perform as agreed. In the event of default by a counterparty, the risk to BDC in these transactions would be limited to the prevailing currency and/or interest rate differentials, as represented by the market values of transactions that are in an unrealized gain position.

BDC limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with Department of Finance guidelines. As at March 31, 2011 and 2010, BDC has no significant concentrations in any individual financial institution.

BDC continually monitors its position and the credit ratings of its counterparties, and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is mitigated by a master netting agreement.

Counterparty credit risk exposure	Counterparty ratings		
	AA– to AA+	A to A+	Total
Gross positive replacement cost	**36,694**	**30,428**	**67,122**
Impact of master netting agreements	**(3,428)**	**(7,707)**	**(11,135)**
Replacement cost (after master netting agreements) – 2011	**33,266**	**22,721**	**55,987**
Replacement cost (after master netting agreements) – 2010	28,799	35,978	64,777
Number of counterparties			
March 31, 2011	**5**	**7**	**12**
March 31, 2010	7	10	17

Finally, to manage the credit risk arising from an issuer of cash equivalents, the Treasury Risk Management Unit ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have a minimum credit rating of A.

MARKET RISK

Market risk is the impact on the fair value or future cash flows of a financial instrument that will fluctuate as a result of changes in financial market variables, such as movements in interest and foreign exchange rates, as well as equity prices. Market risk for BDC also arises from unpredictable venture capital financial markets.

Interest rate and equity market risks

As set out in the Minister of Finance's annual standing borrowing approval letter, BDC can only be exposed to Canadian fixed and floating interest rates for its borrowings. As a result, BDC structured notes are economically hedged, using derivatives, to eliminate market risks such as exposure to interest rates in foreign markets, equity prices, and commodity or index fluctuations (refer to Note 20, *Derivative Financial Instruments*, for additional information). Therefore, BDC is not exposed to equity price risk, except for its venture capital investments, which is further explained in the *Venture capital market risk* section of this note.

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. For BDC, the risk and potential variability in earnings arise primarily when cash flows are associated with interest-sensitive assets and liabilities that have different repricing dates. A positive interest rate gap exists when interest-sensitive assets exceed interest-sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in net interest income when market interest rates rise, since assets reprice earlier than liabilities. The opposite impact will occur when market interest rates fall.

19. RISK MANAGEMENT (CONTINUED)

To manage the interest rate gap on its asset-backed securities, BDC funds each issuance of asset-backed securities with specific long-term borrowings. Long-term borrowings have similar payment schedules and repricing periods to mitigate interest rate risk. Refer to Note 12 *Borrowings* for additional information.

To manage the interest rate gap on its other interest-sensitive assets and interest-sensitive liabilities, BDC establishes policy guidelines for interest rate gap positions, and meets regularly to monitor the Bank's situation and decide future strategies in light of changing market conditions. The objective is to manage the interest rate risk within sound and prudent guidelines. Interest rate risk policies are approved and reviewed at least annually by the board of directors.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest-sensitive assets and interest-sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure, duration analysis and dollar estimates of net interest income sensitivity for periods of up to one year. The interest rate gap is measured daily. Note 21 *Interest rate sensitivity* shows the gap position as of March 31, 2011 (with comparatives for fiscal 2010) for selected time intervals. The gap analysis in Note 21 is a static measurement of interest rate-sensitive gaps at a specific time. These gaps can change significantly in a short period of time.

Exposure to interest rate risk is also monitored with a net interest income sensitivity stress test. A parallel and sustainable 200-basis-point shock on the Canadian yield curve is simulated and the impact on net interest income has to be less than 10%. As at March 31, 2011, the impact was 4% (4% as at March 31, 2010).

Foreign exchange risk

Foreign exchange risk arises when there is a difference between assets and liabilities held in foreign currencies. Foreign exchange risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. It's BDC's practice to economically hedge borrowings, investments and loans in foreign currencies. Refer to Note 20 *Derivative Financial Instruments* for more information.

Venture capital market risk

The unpredictable financial markets, as well as the presence and appetite of buyers, dictate the timing of venture capital divestitures. This timing, in turn, affects the value of BDC venture capital investments. To manage this risk, BDC uses a rigorous selection process of investments and works closely with its investee companies. BDC also lowers the risk of its venture capital investments by applying conservative valuations when purchasing participation in a company, co-investing with other venture capital investors and monitoring investments regularly.

The Venture Capital Committee, composed of senior managers, reviews all investment transactions and approves those within its delegated limits. For larger transactions, this committee makes recommendations to the Credit/Investment and Risk Committee of the board for approval.

LIQUIDITY RISK

Liquidity risk is the risk that BDC will be unable to honour all its contractual cash outflows as they become due. Contractual payments for BDC represent (i) repayment of debt; (ii) timely disbursement of committed loans, investments and asset-backed securities; and (iii) payments of dividends and operating and administrative expenses.

19. RISK MANAGEMENT (CONTINUED)

The following table presents contractual maturities of financial liabilities and commitments as at March 31 and is based on notional amounts, which may differ from carrying values.

					2011
	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilites	75,356	10,847	–	–	86,203
Interest on borrowings(1)	79,071	124,528	90,386	–	293,985
Short-term notes(2)	9,715,808	–	–	–	9,715,808
Long-term notes(2)	651,378	3,271,189	437,957	–	4,360,524
Derivative liabilities(3)	6,906	15,393	5,001	–	27,300
Other financial liabilities	–	–	–	25,540	25,540
Commitments					
Loans and subordinate financing investments	1,357,945	–	–	–	1,357,945
Venture capital investments	–	–	–	231,721	231,721
Asset-backed securities	150,000	–	–	–	150,000
Letters of credit and loan guarantees	–	–	–	62,395	62,395
Total as at March 31, 2011	12,036,464	3,421,957	533,344	319,656	16,311,421

					2010
	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilites	61,460	10,180	–	–	71,640
Interest on borrowings(1)	79,452	340,307	179,106	–	598,865
Short-term notes(2)	5,559,517	–	–	–	5,559,517
Long-term notes(2)	2,719,778	4,657,806	794,470	–	8,172,054
Derivative liabilities(3)	9,154	19,798	7,502	–	36,454
Other financial liabilities	–	–	–	28,208	28,208
Commitments					
Loans and subordinate financing investments	1,438,202	–	–	–	1,438,202
Venture capital investments	–	–	–	222,562	222,562
Asset-backed securities	300,000	–	–	–	300,000
Letters of credit and loan guarantees	–	–	–	61,546	61,546
Total as at March 31, 2010	10,167,563	5,028,091	981,078	312,316	16,489,048

(1) Interest on borrowings includes interest payments to maturity for short-term and long-term notes outstanding as at March 31.

(2) Short-term and long-term notes reflect the notional amount that will be paid as per the contractual note agreements.

(3) Derivative liabilities reflect the interest payments to maturity of derivatives.

19. RISK MANAGEMENT (CONTINUED)

A lack of marketability could make it expensive or even impossible to liquidate the securities held by BDC, which could also compromise the short-term continuity of normal business. To avoid any business disruptions, BDC ensures that cash is invested in highly liquid and high-quality securities that can be sold to a wide range of counterparties without incurring a substantial discount.

BDC's liquidity risk management objective is to mitigate this risk by:

- providing for a minimum level of short-term assets over short-term liabilities to cover commitment, market/systemic and operational risks;
- minimizing the unproductive cash balance in the cash account; and
- achieving a return in excess of cost while protecting capital of liquid assets.

Annually, the board of directors approves the treasury risk policy that has been reviewed and recommended for approval by the Asset-Liability Committee (ALCO). The policy establishes risk tolerance parameters, provides delegation of authority to BDC's Treasury Department to transact in approved products and provides limits related to specific measures. The policy governs management, measurement, monitoring and reporting requirements related to liquidity. Paragraph 18(3) of the BDC Act defines the instruments in which BDC may invest its liquidity.

BDC's liquidity management practices and processes reinforce its risk mitigation strategies by assigning prudent liquidity levels, concentration requirements and maturity profile requirements. Liquidity risk for asset-backed securities is managed on a transaction basis due to the large size of each investment included in this portfolio. Consequently, asset-backed securities are excluded from the liquidity management practices and processes.

- The minimum liquidity level covers at least the net outflows scheduled for the next five working days. The maximum liquidity level is not to exceed 15 days of net cash outflows.
- The maturity profile requires 75% of the total liquidity to be invested in securities maturing within 100 days.
- The concentration profile requires that no more than 50% of the portfolio be invested in securities issued or guaranteed by Canadian provinces.

The cash and cash equivalents received from derivative counterparties to cover credit risk exposure as per the Credit Support Annex of the International Swap and Derivatives Association agreements are not included in the liquidity level/limits. As of March 31, 2011, the carrying amount of these collaterals is $4,752 ($47,872 in 2010).

The following tables show the results of BDC's liquidity risk mitigation as at March 31.

Liquidity level ($ in millions)

	Minimum	Actual	Maximum
As at March 31, 2011	**395**	**635**	**1,351**
As at March 31, 2010	257	353	1,002

Maturity and concentration limits	Limits	**2011**	2010
Cash and cash equivalents maturing within 100 days	Min 75%	**100%**	100%
Cash and cash equivalents in Canadian provinces	Max 50%	**0%**	0%

The Treasury Risk Management Unit identifies, measures and monitors these liquidity limits daily. It reports any deviations from these liquidity limits to the ALCO and the board of directors. The Treasury Risk Management Unit determines whether they remain valid or whether changes to assumptions and limits are required in light of internal or external developments. This process ensures that a close link is maintained between liquidity, market and credit risk.

20.
DERIVATIVE FINANCIAL INSTRUMENTS

BDC uses the following derivatives to manage exposures to interest, currency and other market risks.

SWAPS

Swaps are contractual obligations to exchange a series of cash flows on a specific notional amount for a predetermined period. The various swap agreements that BDC enters into are as follows:

> *interest rate swaps*, which involve exchange of fixed- and floating-rate interest payments;

> *cross-currency interest rate swaps*, which involve the exchange of both interest and notional amounts in two different currencies; and

> *equity-linked swaps*, where one of the payments exchanged represents the variation in an equity index over time, and the other is based on agreed fixed or floating rates.

The main risk associated with these instruments is related to movements in interest rates, foreign currencies and equity prices. BDC's policy is not to use derivative financial instruments for speculative purposes.

FORWARDS AND FUTURES

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future. *Forwards* are customized contracts transacted in the over-the-counter market. *Futures* are transacted in standardized amounts on regulated exchange markets and are subject to daily cash margining.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts, and from movements in interest rates and foreign exchange rates.

In compliance with BDC's treasury risk policy, BDC uses derivative financial instruments to mitigate its foreign exchange rate risk, as well as its interest rate and equity market risk.

FOREIGN EXCHANGE RATE RISK

BDC economically hedges its long-term borrowings with cross-currency interest-rate swaps, and its loans and investments with foreign exchange forward contracts. These instruments have been classified as held-for-trading.

BDC also uses foreign exchange forward contracts to have an economic hedge for its loans and investments in foreign currencies. These contracts are classified as held-for-trading.

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

INTEREST RATE AND EQUITY MARKET RISKS

BDC enters into interest rate swaps to hedge the financial impact of future interest rate fluctuations in relation to changes in the loan portfolio mix. These contracts have been designated as cash flow hedges.

BDC also uses derivative financial instruments that have an economic hedge for its structured notes. These instruments include interest rate swaps, cross-currency interest rate swaps, equity-linked swaps, and futures. These instruments have been classified as held-for-trading.

The following table provides the fair value of BDC's derivatives portfolio as at March 31 as represented by gross assets and gross liabilities values.

			2011			2010
	Gross assets	Gross liabilities	Net amount	Gross assets	Gross liabilities	Net amount
Hedging						
Interest rate swap contracts	941	2,633	(1,692)	701	6,334	(5,633)
Total hedging	941	2,633	(1,692)	701	6,334	(5,633)
Held-for-trading						
Interest rate swap contracts	32,385	7,814	24,571	30,786	7,524	23,262
Equity-linked swap contracts	20,817	6,541	14,276	30,824	11,896	18,928
Cross-currency interest rate swap contracts	9,629	8,763	866	18,973	47,479	(28,506)
Foreign exchange forward contracts and futures	3,350	–	3,350	4,495	–	4,495
Total held-for-trading	66,181	23,118	43,063	85,078	66,899	18,179
Total	67,122	25,751	41,371	85,779	73,233	12,546

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes the notional amount, by term to maturity or repricing date, of derivative instruments. Notional amounts are not recorded as assets or liabilities on the Balance Sheet, as they represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

	Term to maturity or repricing				2011	2010
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	**Notional amount**	Notional amount
Hedging						
Interest rate swap contracts						
$CDN payable-fixed	100,000	–	–	–	**100,000**	100,000
% payable-fixed	*4.50*					
$CDN receivable-fixed	*120,000*	140,000	–	60,000	**320,000**	150,000
% receivable-fixed	*1.27*	*2.14*		*3.01*		
Total hedging	220,000	140,000	–	60,000	**420,000**	250,000
Held-for-trading						
Interest rate swap contracts						
$CDN payable-fixed	–	–	50,000	60,000	**110,000**	110,000
% payable-fixed			*4.31*	*4.17*		
$CDN receivable-fixed	–	25,324	38,447	292,601	**356,372**	359,048
% receivable-fixed		*3.98*	*4.31*	*4.62*		
Equity-linked swap contracts	75,399	77,000	105,650	–	**258,049**	472,339
	75,399	102,324	194,097	352,601	**724,421**	941,387
Cross-currency interest rate swap contracts	–	–	7,067	160,606	**167,673**	545,725
	75,399	102,324	201,164	513,207	**892,094**	1,487,112
Foreign exchange forward contracts and futures	182,985	–	–	–	**182,985**	155,021
Total held-for-trading	258,384	102,324	201,164	513,207	**1,075,079**	1,642,133
Total	478,384	242,324	201,164	573,207	**1,495,079**	1,892,133

The rates represent the weighted average interest rates that BDC has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian bankers' acceptance rates. All amounts in foreign currencies are converted into the Canadian dollar equivalent using the rate of exchange of the derivative contracts.

21.
INTEREST RATE SENSITIVITY

The following tables summarize BDC's interest rate sensitivity position based on the difference between the carrying value of assets and the carrying value of liabilities and equity, grouped by the earlier of contractual repricing or maturity date. The effective yield represents the weighted average effective yield based on the earlier of contractual repricing or maturity date.

CANADIAN DOLLAR TRANSACTIONS

	Floating-rate	Within 3 months(2)	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value	Total
Assets								
Cash and cash equivalents	9,198	628,520	–	–	–	–	–	637,718
Effective yield (%)		*1.09*						
Derivative assets	–	54,144	–	–	–	–	–	54,144
Asset-backed securities	–	2,013,273	–	1,052,316	–	–	–	3,065,589
Effective yield (%)		*2.70*		*2.94*				
Loans, net of allowance for credit losses	11,141,629	217,034	453,602	1,494,964	540,090	584,093	(770,709)	13,660,703
Effective yield (%)	*5.56*	*7.10*	*6.95*	*6.60*	*6.78*			
Subordinate financing investments	2,260	7,831	16,800	175,133	22,533	29,522	(3,860)	250,219
Effective yield(1) (%)	*11.35*	*12.79*	*13.01*	*12.14*	*11.88*			
Venture capital investments	–	–	–	–	–	228,802	–	228,802
Other	–	–	–	–	–	234,600	–	234,600
	11,153,087	2,920,802	470,402	2,722,413	562,623	1,077,017	(774,569)	18,131,775
Liabilities and shareholder's equity								
Short-term notes	–	9,710,934	–	–	–	–	–	9,710,934
Effective yield (%)		*0.89*						
Long-term notes	–	3,219,200	100,000	360,361	316,422	252,536	–	4,248,519
Effective yield (%)		*0.86*	*4.75*	*1.74*	*2.17*	*0.89*		
Derivative liabilities	–	8,050	1,125	3,516	4,298	–	–	16,989
Other	–	–	–	–	–	251,045	–	251,045
Shareholder's equity	–	–	–	–	–	4,008,321	–	4,008,321
	–	12,938,184	101,125	363,877	320,720	4,511,902	–	18,235,808
Total Balance Sheet gap 2011	11,153,087	(10,017,382)	369,277	2,358,536	241,903	(3,434,885)	(774,569)	(104,033)
Total Balance Sheet gap 2010	9,781,070	(7,782,376)	364,917	1,615,064	278,430	(3,183,434)	(787,402)	286,269
Total derivative position	–	(696,397)	67,375	317,303	311,719	–	–	–
Total gap position 2011	11,153,087	(10,713,779)	436,652	2,675,839	553,622	(3,434,885)	(774,569)	(104,033)
Total gap position 2010	9,781,070	(8,636,512)	309,566	2,152,183	650,798	(3,183,434)	(787,402)	286,269

(1) Excludes non-interest return.

(2) This grouping includes short-term and long-term notes for which interest rates reset monthly. These notes are used to fund floating-rate assets.

21. INTEREST RATE SENSITIVITY (CONTINUED)

FOREIGN CURRENCY TRANSACTIONS, EXPRESSED IN CANADIAN DOLLARS

	Floating-rate	Within 3 months[2]	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value	Total
Assets								
Cash and cash equivalents	1,108	4,752	–	–	–	–	–	5,860
Effective yield (%)		*0.12*						
Derivative assets	–	9,628	–	–	–	3,350	–	12,978
Loans, net of allowance for credit losses	72,180	–	–	–	–	2,095	(3,967)	70,308
Effective yield (%)	*3.46*							
Subordinate financing investment	156	–	–	–	–	–	–	156
Effective yield[1] (%)	*4.35*							
Venture capital investments	–	–	–	–	–	178,991	–	178,991
Other	–	–	–	–	–	–	–	–
	73,444	14,380	–	–	–	184,436	(3,967)	268,293
Liabilities and shareholder's equity								
Short-term notes	–	4,752	–	–	–	–	–	4,752
Effective yield (%)		*0.00*						
Long-term notes	–	–	–	6,044	144,702	–	–	150,746
Effective yield (%)				*0.92*	*0.96*			
Derivative liabilities	–	8,762	–	–	–	–	–	8,762
Other	–	–	–	–	–	–	–	–
Shareholder's equity	–	–	–	–	–	–	–	–
	–	13,514	–	6,044	144,702	–	–	164,260
Total Balance Sheet gap 2011	73,444	866	–	(6,044)	(144,702)	184,436	(3,967)	104,033
Total Balance Sheet gap 2010	60,947	(28,502)	–	(5,989)	(436,134)	128,190	(4,781)	(286,269)
Total derivative position	–	(152,423)	–	7,067	145,356	–	–	–
Total gap position 2011	73,444	(151,557)	–	1,023	654	184,436	(3,967)	104,033
Total gap position 2010	60,947	(502,675)	–	1,081	30,969	128,190	(4,781)	(286,269)

(1) Excludes non-interest return.

(2) This grouping includes short-term and long-term notes for which interest rates reset monthly. These notes are used to fund floating-rate assets.

TOTAL TRANSACTIONS, EXPRESSED IN CANADIAN DOLLARS

	Floating-rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value adjustment	Total
Total gap position for Canadian dollar transactions	11,153,087	(10,713,779)	436,652	2,675,839	553,622	(3,434,885)	(774,569)	(104,033)
Total gap position for foreign currency transactions	73,444	(151,557)	–	1,023	654	184,436	(3,967)	104,033
Total gap position 2011	11,226,531	(10,865,336)	436,652	2,676,862	554,276	(3,250,449)	(778,536)	
Total gap position 2010	9,842,017	(9,139,187)	309,566	2,153,264	681,767	(3,055,244)	(792,183)	

22. GUARANTEES AND CONTINGENT LIABILITIES

GUARANTEES

LETTERS OF CREDIT AND LOAN GUARANTEES

Since fiscal 2010, BDC has been issuing "letters of credit and loan guarantees" (guarantees) to support businesses with reduced access to capital through a risk-sharing partnership with other lenders. Those guarantees represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in the Consolidated Statement of Income. The maximum amount payable under the guarantees totalled $62.4 million as at March 31, 2011 ($61.5 million in 2010) and the existing terms expire within 14 months. The total contractual amount is not representative of the maximum potential amount of future payments to be required for these commitments. Recognition of a liability occurs when there is a likelihood that a client will not meet its contractual commitments. As at March 31, 2011 and 2010, no liability related to these guarantees was recognized in BDC's Consolidated Balance Sheet.

INDEMNIFICATION AGREEMENTS

In the ordinary course of business, BDC enters into many contracts that contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in the financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties or as a result of litigation claims by third parties.

These indemnification provisions will vary based on the contract. In many cases, no predetermined amounts or limits are included in these indemnification provisions, and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities and there were no significant accruals for indemnities as of March 31, 2011.

CONTINGENT LIABILITIES

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

23. COMMITMENTS

Undisbursed amounts of authorized loans and subordinate financing investments were $1,357,945 at March 31, 2011 ($117,635 fixed rate; $1,240,310 floating rate) and are expected to be disbursed during fiscal 2012. The weighted average effective interest rate is 5.50% on loan commitments and 11.53% on subordinate financing commitments (excluding non-interest return). The following tables present undisbursed amounts of authorized loans and subordinate financing investments, by location and industry.

Commitments, by geographic location	2011	
Newfoundland and Labrador	40,671	3.0%
Prince Edward Island	10,080	0.7%
Nova Scotia	17,509	1.3%
New Brunswick	55,871	4.1%
Quebec	418,503	30.8%
Ontario	443,068	32.6%
Manitoba	37,959	2.8%
Saskatchewan	36,155	2.7%
Alberta	157,781	11.6%
British Columbia	133,422	9.8%
Yukon	4,651	0.4%
Northwest Territories and Nunavut	2,275	0.2%
Total	1,357,945	100.0%

Commitments, by industry sector	2011	
Manufacturing	253,657	18.7%
Wholesale and retail trade	293,065	21.6%
Tourism	200,417	14.8%
Construction	148,103	10.9%
Commercial properties	118,630	8.7%
Business services	77,324	5.7%
Transportation and storage	60,381	4.4%
Other	206,368	15.2%
Total	1,357,945	100.0%

23. COMMITMENTS (CONTINUED)

The undisbursed amounts of authorized venture capital investments were $231,721 at March 31, 2011, and were related to the following industry sectors.

Commitments, by industry sector		2011
Medical and health	10,799	4.6%
Biotechnology and pharmacology	9,652	4.2%
Information technology	4,476	1.9%
Industrial	4,200	1.8%
Electronics	3,629	1.6%
Communications	2,455	1.1%
Other	1,960	0.8%
Total direct investments	37,171	16.0%
Funds	194,550	84.0%
Total	231,721	100.0%

The undisbursed amounts of authorized asset-backed securities were $150,000 at March 31, 2011.

In addition, BDC future minimum lease commitments under operating leases related to the rental of premises are approximately as follows.

2012	21,931
2013	18,633
2014	17,597
2015	16,840
2016	15,406
2017 and later	49,070
Total	139,477

24. PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC offers defined benefit plans that provide pension and post-retirement benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully indexed to the Consumer Price Index. Post-retirement benefit plans include health, dental and life insurance coverage.

BDC funds the registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements. Benefits accruing to members of the contributory component of the registered pension plan are also funded by employee contributions. The most recent actuarial valuation for funding purposes for the registered pension plan was performed in fiscal 2011 based on December 31, 2009, balances. The next actuarial funding valuation will be at December 31, 2010, and will be performed during fiscal 2012. BDC began funding the supplemental pension plans in 2006 and other benefit plans are unfunded.

For fiscal 2011, total contributions to pension and other employee future benefits, consisting of cash contributed by BDC to its funded pension plans and cash payments made directly to beneficiaries for its unfunded other plans, were $70.7 million ($41.3 million in 2010).

24. PENSION AND OTHER EMPLOYEE FUTURE BENEFITS (CONTINUED)

The following tables present, in aggregate, information concerning the employee future benefit plans.

	Registered pension plan		Supplemental pension plans		Other plans	
	2011	2010	2011	2010	2011	2010
Change in accrued benefit obligation						
Balance at beginning of year	645,515	490,269	65,053	49,728	120,310	103,411
Current service cost	21,300	9,588	1,176	880	3,209	4,000
Interest cost on benefit obligation	38,105	35,851	3,729	3,577	6,911	7,526
Employee contributions	9,196	8,059	–	–	–	–
Benefits paid	(26,625)	(26,845)	(2,742)	(2,540)	(5,681)	(5,866)
Actuarial loss (gain)	6,386	128,593	1,490	13,408	(7,729)	11,239
Balance at end of year	693,877	645,515	68,706	65,053	117,020	120,310
Change in fair value of plan assets						
Balance at beginning of year	586,645	486,812	38,793	29,036	–	–
Employee contributions	9,196	8,059	–	–	–	–
Employer contributions	46,212	28,993	4,592	9,755	–	–
Actual return on plan assets during the year	70,805	89,626	1,300	2,542	–	–
Benefits paid	(26,625)	(26,845)	(2,742)	(2,540)	–	–
Balance at end of year	686,233	586,645	41,943	38,793	–	–
Deficit at end of year	(7,644)	(58,870)	(26,763)	(26,260)	(117,020)	(120,310)
Employer contributions after measurement date	20,413	7,259	5,535	4,592	328	186
Unamortized past service gain	–	–	–	–	(419)	(2,098)
Unamortized net actuarial loss	157,038	197,045	20,506	20,766	2,336	10,065
Accrued benefit asset (liability) at end of year	169,807	145,434	(722)	(902)	(114,775)	(112,157)

Pension and other post-retirement costs are included in salaries and benefits in Note 17 and are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2011	2010	2011	2010	2011	2010
Defined benefit costs						
Current service cost	21,300	9,588	1,176	880	3,209	4,000
Interest cost on benefit obligation	38,105	35,851	3,729	3,577	6,911	7,526
Actual return on plan assets	(70,805)	(89,626)	(1,300)	(2,542)	–	–
Actuarial loss (gain) on benefit obligation	6,386	128,593	1,490	13,408	(7,729)	11,239
Costs arising in the period	(5,014)	84,406	5,095	15,323	2,391	22,765
Differences between costs arising in the period and costs recognized in the period in respect of:						
Return (loss) on plan assets	30,235	55,192	(79)	1,314	–	–
Actuarial (gain) loss	9,772	(117,933)	339	(12,704)	7,729	(11,728)
Past service gain	–	–	–	–	(1,679)	(1,679)
Defined benefit cost for the year ended March 31	34,993	21,665	5,355	3,933	8,441	9,358

24. PENSION AND OTHER EMPLOYEE FUTURE BENEFITS (CONTINUED)

As at December 31, the fair value of assets in BDC's registered and supplemental pension plans was as follows.

Investment type	2011		2010	
Cash and short-term investments	**13,954**	**1.9%**	8,833	1.4%
Bonds	**253,452**	**34.8%**	221,053	35.3%
Equity investments	**437,968**	**60.2%**	373,759	59.8%
Other assets less liabilities	**22,802**	**3.1%**	21,793	3.5%
Net assets available for benefits	**728,176**	**100.0%**	625,438	100.0%

The significant actuarial assumptions adopted in measuring BDC's accrued benefit obligations and annual benefit cost (weighted averages) are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2011	2010	**2011**	2010	**2011**	2010
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**5.75%**	7.25%	**5.75%**	7.25%	**5.75%**	7.25%
Discount rate at end of year	**5.75%**	5.75%	**5.75%**	5.75%	**5.75%**	5.75%
Significant actuarial assumptions used to determine the accrued benefit cost						
Discount rate at beginning	**5.75%**	7.25%	**5.75%**	7.25%	**5.75%**	7.25%
Expected long-term rate of return on plan assets(1)	**6.75%**	7.00%	**3.38%**	3.50%	–	–

The average rate of compensation increase is expected to be inflation, which is assumed to be 2.5% (in 2010, 2.5%) plus 0.5% for productivity gains, plus an adjustment for merit and promotion.

(1) The expected long-term rate of return on plan assets is calculated using assets valued at fair value.

For measurement purposes, cost trends were assumed to be as follows.

Medical costs related to drugs:

7% in 2011 falling by 0.27% each year to 3% in 2026
(9% in 2010 falling by 0.67% each year to 5% in 2016)

Other medical costs related to paramedical services:

2.5% per year
(5% in 2010 falling by 1% each year to 3% in 2012)

Other medical costs:

4.4% in 2011 falling by 0.16% each year to 2.8% in 2021
(5% in 2010 falling by 1% each year to 3% in 2012)

Dental costs:

3% per year
(6% in 2010 falling by 1% each year to 4% in 2012)

24. PENSION AND OTHER EMPLOYEE FUTURE BENEFITS (CONTINUED)

SENSITIVITY OF ASSUMPTIONS

The impact of changing the key weighted-average economic assumptions used in measuring the net periodic pension and other benefit costs is summarized in the table below.

		Registered pension plan	Supplemental pension plans	Other plans
Increase (decrease) in				
Expected rate of return on assets				
Impact of:	1% increase	(6,010)	(204)	–
	1% decrease	6,010	204	–
Discount rate				
Impact of:	1% increase	(10,877)	(914)	(593)
	1% decrease	13,076	1,104	836
Rate of compensation increase				
Impact of:	0.25% increase	932	224	12
	0.25% decrease	(921)	(202)	(11)
Assumed overall health care cost trend rates				
Impact of:	1% increase	–	–	1,823
	1% decrease	–	–	(1,396)
on the aggregate of the service and interest cost components of post-retirement benefits other than pension cost for the period				
Assumed overall health care cost trend rates				
Impact of:	1 % increase	–	–	14,149
	1% decrease	–	–	(11,335)
on post-retirement benefits other than the pension accrued benefit obligation at March 31, 2011				

25. RELATED PARTY TRANSACTIONS

As at March 31, 2011, BDC had $9,711 million outstanding in short-term notes and $3,512 million in long-term notes with Her Majesty in Right of Canada acting through the Minister of Finance ($5,510 million in short-term notes and $6,735 million in long-term notes at March 31, 2010).

This borrowing is in accordance with the FAA and the BDC Act and is compliant with (i) BDC's borrowing plan, which has been approved by the Minister of Finance; and (ii) the *Master Loan Framework for Interim Funding from the Consolidated Revenue Fund to the Business Development Bank of Canada*, dated February 14, 2008.

Accrued interest on borrowings includes $5 million payable to the Minister of Finance as at March 31, 2011 ($3 million at March 31, 2010). BDC also recorded $94 million of interest expense for fiscal 2011 relating to the borrowing with the Minister of Finance ($27 million in 2010).

In order to comply with BDC's risk management policies, certain short-term and long-term notes with the Minister of Finance were repurchased during the year. This resulted in a net realized loss of $4 million ($7 million net realized loss in 2010).

BDC is also related to all Government of Canada-created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2011.

CORPORATE GOVERNANCE

In collaboration with the government, BDC has defined the profile and skills that board members need to help BDC fulfill its mandate. The result is a diverse, talented group that is well equipped to steward BDC; seasoned businesspeople who set BDC's strategic direction and hold it accountable. These members have significant financial expertise and a steadfast dedication to BDC's mandate.

OVER THE PAST DECADE, BDC HAS ADOPTED ROBUST CORPORATE GOVERNANCE POLICIES AND STRUCTURES. THESE WERE INVALUABLE IN OVERCOMING THE DIFFICULTIES OF THE CREDIT CRISIS AND RECESSION OF RECENT YEARS.

The board of directors reacted swiftly to steer BDC through both and oversaw its delivery of parts of the Government of Canada's response to them, specifically the Business Credit Availability Program (BCAP) and the Canadian Secured Credit Facility (CSCF).

A 2010 report by the Conference Board of Canada, *Lessons From the Recession and Financial Crisis*, noted that BDC provided exceptional credit during the recession, which helped the healing of the Canadian financial system.

This past year, the board oversaw the development of new financial products such as the Economic Recovery Loan and, in keeping with the complementary continuity of BDC's role, oversaw the completion of BCAP and the ongoing repayment of notes purchased through the CSCF. These were temporary measures for extraordinary times.

A notable feature of the board's work in fiscal 2011 was its preparation for and participation in the legislative review of the BDC Act (please see box on page 111).

Another was its overseeing of the strategic review of Canada's venture capital industry, and BDC's venture capital activities and strategy. For more information on all of these issues, please consult www.bdc.ca.

STATEMENT FROM THE BOARD OF DIRECTORS

We set BDC's strategic direction. We also hold it accountable by overseeing its activities to ensure it achieves its statutory mandate while respecting its statutory role, all in accordance with the highest standards of corporate governance.

Except for the president and CEO, we are all independent of management. None, except the president, is a BDC employee. We have first-hand experience in finance, business management, entrepreneurship, risk management and human resources. Together, we have the required mix of skills and experience needed for our stewardship role.

Our core challenge is to manage the tension inherent in BDC's role. BDC's mandate is to support entrepreneurs—an inherently risky activity. We must also support our shareholder by offering services to stimulate economic activity and greater productivity. And in doing so, we must remain commercially viable.

Our principal guidelines are parliamentary statutes. The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and duties. The *Financial Administration Act*, Part X, sets out the control and accountability regime for Crown corporations.

Like other Crown corporations, BDC is subject to other laws, such as the *Federal Accountability Act*, the *Privacy Act*, the *Access to Information Act*, the *Canadian Environmental Assessment Act* and the *Official Languages Act*, as well as numerous regulations.

Every year, Parliament receives a summary of BDC's annually updated five-year corporate plan, which has been approved by the board of directors, the Treasury Board of Canada, Secretariat, and the Minister of Industry.

Also every year, Parliament receives BDC's annual report. This report contains financial statements that have been audited by both the Auditor General of Canada and an external audit firm.

The Auditor General of Canada, jointly with an external audit firm, also does a special examination of BDC at least every 10 years. This examination is a performance audit. It goes beyond strictly financial issues to examine systems and practices related to economy, efficiency and effectiveness. In the most recent examination report (2009), the auditors favorably reviewed BDC, writing that it has "sound systems and practices in areas such as governance, strategic planning, human resources and financing activities."

At 10-year intervals, the Minister of Industry must have a review of the provisions and operation of the Act undertaken in consultation with the Minister of Finance. This is known as a legislative review (please see box on page 111).

We look to Treasury Board of Canada, Secretariat, for guidance and expertise on public sector governance practices. BDC meets or exceeds all of the governance standards that Treasury Board recommends.

We also look to private sector organizations for best practices to emulate.

OUR DUTIES

Within the parameters set by Parliament and government, our duties are to:

> approve BDC's strategic direction and corporate plan to meet its public policy mandate, and monitor progress;
> set performance targets and monitor progress;
> ensure that BDC is identifying and managing its risks;
> ensure the highest standards of corporate governance;
> establish compensation policies;
> review and approve management's succession plan, a task that includes approving appointments to the Senior Management Team, and evaluating the performance of the president and CEO;
> review BDC's internal controls and management information systems;
> oversee communications and public disclosure;
> oversee BDC's pension plans, and establish its fund policies and practices; and
> approve financing and investment activities beyond management's authority.

The Board Code of Conduct incorporates the same basic principles as the Employee Code of Conduct, Ethics and Values. Every year, we all affirm that we have complied with the code. The segregated roles and responsibilities of the chairman and the president, already documented, reflect current best practices. We declare possible conflicts of interest, if any.

EMPLOYEE CODE OF CONDUCT, ETHICS AND VALUES

The code affirms BDC's fundamental tenets: ethical behaviour, client connection, team spirit, accountability and work/life balance. The code applies to all employees. It sets out the principles that guide and shape our business activities: compliance with the law, trust, fairness, objectivity, integrity, and corporate and individual responsibility.

We work very closely with senior managers but also meet regularly in camera, without their presence.

One of the board committees initially examines most of the work that comes before us. Written terms of reference codify each committee's mandate. These terms are available to the public at www.bdc.ca. We regularly review and revise the membership of these committees to ensure they reflect the strengths of the entire board.

All committee members are independent of management, with one exception: the president and CEO is a member of the Credit/Investment and Risk Committee, which authorizes larger transactions within certain limits. We have appropriately high levels of financial literacy, as well as the broader skills and competencies needed to oversee the management of a large financial organization.

We keep abreast of best practices and review the code regularly to improve our internal governance. The code includes the policy on personal trading for employees, the policy on disclosure of wrongdoing in the workplace and the anti-fraud directive.

If a member of Parliament, senator or director exerts undue pressure in making a referral to a BDC employee, the BDC referral policy requires the employee to report this situation to senior management, which in turn informs the board of directors.

LEGISLATIVE REVIEW

To prepare for and participate in the legislative review of the BDC Act, we created a special legislative review committee comprising Brian Hayward, Jean Martel, Prashant Pathak and Rick Perkins.

To know or anticipate what might be needed of BDC in the coming years, one must know what the marketplace is demanding of Canada's entrepreneurs. We commissioned research to examine the various challenges they face, as well as BDC's assessment of how it can best meet these needs. Based on this, we made a public contribution to the legislative review entitled *Building an Innovative Nation, One Entrepreneur at a Time*. We invite you to read this document at www.bdc.ca.

In autumn 2010 the Senate Standing Committee on Banking, Trade and Commerce held hearings on the BDC Act. The committee heard testimony from and questioned BDC representatives Brian Hayward and Jean-René Halde, as well as a variety of selected stakeholders. We invite you to read the transcripts of these hearings, as well as the Senate committee's resultant report, at www.sen.parl.gc.ca.

COMMITTEES

THE AUDIT COMMITTEE

[illegible]

Stan Bracken-Horrocks

[illegible] F MEETINGS

[illegible]

[illegible]

Eric Boyko
Brian Hayward
Jean Martel
Sarah Raiss
Thomas R. Spencer

This committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Its main duties are to:

- review and advise the board on annual financial statements before BDC discloses them to the public;
- review financial disclosures;
- review the adequacy and effectiveness of internal controls, including information technology security and controls, and, in particular, major accounting and financial reporting systems;
- oversee BDC's standards of integrity and conduct;
- oversee the disclosure of wrongdoing process;
- review the terms of engagement of auditors and special examiners who report directly to the committee and are accountable to the board;
- give advice and recommendations about the appointments and terms of auditors and special examiners;
- review and advise the board on the audit of the annual financial statements, the scope of the special examination and the special examination report;
- consider the appointment and work of the internal auditor, who reports directly to the committee and administratively to the president and CEO; and
- review directors' and officers' expenses.

THE CREDIT/INVESTMENT AND RISK COMMITTEE

[illegible]

Thomas R. Spencer

NUMBER OF MEETINGS

[illegible]

[illegible]

Eric Boyko
Jean-René Halde
Stan Bracken-Horrocks
Prashant Pathak
Rosemary Zigrossi

This committee's main duties are to:

- identify and manage BDC's principal risks;
- regularly review the enterprise risk management policy, and policies and processes concerning credit risk, market risk, operational risk and other principal risks;
- review reports and indicators related to portfolio management, including indicators related to capital adequacy review and compliance, industry-specific studies, and portfolio management strategies;
- approve loans and investments that exceed the delegated authorities of senior management; and
- review policies and guidelines related to the delegation of authority.

THE GOVERNANCE AND NOMINATING COMMITTEE

John A. MacNaughton

NUMBER OF MEETINGS
4

Stan Bracken-Horrocks
Sarah Raiss
Thomas R. Spencer
Rosemary Zigrossi

This committee helps the board fulfill its corporate governance responsibilities. Its responsibilities are to:

> continually review best practices and regulations related to governance in Canada and, if necessary, recommend changes to BDC's approach;

> annually review BDC's corporate governance policies, including the Board Code of Conduct and the Employee Code of Conduct, Ethics and Values;

> annually assess the board's compliance with these policies;

> regularly review the mandates, structures, and memberships of the board and its committees;

> develop selection criteria for the president and CEO position;

> recommend candidates for the re-appointment of the CEO, as well as directors;

> review and annually approve required skills for directors;

> develop processes to assess the performance of the board, its committees and its individual members; and

> ensure that comprehensive director orientation and continuous training programs are in place.

THE HUMAN RESOURCES COMMITTEE

Sarah Raiss

NUMBER OF MEETINGS
8

Sue Fawcett
Brian Hayward
Jean Martel
Rick Perkins
John A. MacNaughton

This committee's main duties are to:

> assess the "tone at the top" established by senior management with respect to integrity and ethics;

> oversee the human resources strategy to ensure it aligns with the corporate plan;

> review—and, if appropriate, recommend to the board for approval—the CEO's recommendations for appointments of senior management committee members, the vice president and chief auditor, and the ombudsman, as well as any CEO proposal for major changes to the organization's structure;

> assess the CEO's objectives and performance;

> review compensation for senior executives;

> review and approve the design of compensation programs and payments;

> receive and examine the actuarial evaluation reports, and approve pension fund and financial statements;

> approve performance measures and metrics; and

> ensure that there is a valid succession plan in place.

THE PENSION FUNDS INVESTMENT COMMITTEE

CHAIR
Rosemary Zigrossi

NUMBER OF MEETINGS
6

MEMBERS
Sue Fawcett
Prashant Pathak
Rick Perkins
Frank Watters
(representative for retirees)

This committee's main duties are to:

> monitor, and advise the board on, all matters related to the investment of the funds' assets;

> ensure that investments comply with established policies;

> recommend to the board the appointment, termination and replacement of external investment managers;

> monitor the performance of these managers; and

> recommend asset allocation and investment policies and strategies.

SPECIAL COMMITTEE FOR THE LEGISLATIVE REVIEW

CHAIR
Brian Hayward

NUMBER OF MEETINGS
4

MEMBERS
Jean Martel
Prashant Pathak
Rick Perkins

This committee's duties are to:

> advise and guide management during the legislative review process;

> advise and guide the board with respect to the legislative review position paper prepared by management;

> advise and guide the board on any proposed changes to the BDC Act;

> review the stakeholder communications plan for the review, as well as its implementation; and

> report regularly to the board—and take recommendations to and advice from the board—about the reviews, and oversee management's implementation of same.

For the mandates of the board committees, please see www.bdc.ca.

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE

	Board		Audit		Credit/ Investment and Risk		Governance and Nominating		Human Resources		Pension Funds Investment		Total meetings	
Directors	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total
Eric Boyko	9	12	4	6	22	26							35	44
Stan Bracken-Horrocks	12	12	6	6	23	26	4	4					45	48
Roger Demers(1)	7	7							5	8	4	4	16	19
Sue Fawcett	12	12							8	8	6	6	26	26
Brian Hayward	12	12	5	6					8	8			25	26
Henry K.S. Lee(2)	2	2							1	1	1	1	4	4
John A. MacNaughton(3)(5)	8	12					3	4					11	16
Jean Martel	10	12	2	6					7	8			19	26
Prashant Pathak	11	12			19	26					6	6	36	44
Rick Perkins	12	12							7	8	4	6	23	26
Sarah Raiss	12	12	5	6			4	4	8	8			29	30
Thomas Spencer	11	12	5	6	21	26	3	4					40	48
Rosemary Zigrossi	11	12			24	26	4	4			6	6	45	48
Jean-René Halde(4)	11	12			16	26							27	38
Total number of meetings		12		6		26		4		8		6		
Total number of directors	14-2		6		6		5		7-2		6-2			

(1) Resigned November 30, 2010.

(2) Resigned May 3, 2010.

(3) As chairman, Mr. MacNaugton is an ex officio member of all the committees.

(4) As president and CEO, Mr. Halde may attend all committee meetings.

(5) Due to ill health, Mr. MacNaughton was unable to attend all board meetings during the year.

BOARD OF DIRECTORS

(March 31, 2011)

JOHN A. MACNAUGHTON
Chairman of the Board
BDC
Toronto, Ontario

John A. MacNaughton joined the BDC board of directors in 2007 and was re-appointed in 2010. He is also a member of the Prime Minister's Advisory Committee on the Public Service, director of TransCanada Corporation, chair of the Independent Nominating Committee of the Canada Employment Insurance Financing Board, trustee and vice chairman of the University Health Network, trustee of Rosedale United Church, director of the Ontario Arts Foundation and North American member of the Trilateral Commission.

He is also a member of the Order of Canada.

Previously, he had spent 31 years with Nesbitt Burns Inc. and its predecessor companies, serving as president of Burns Fry and then Nesbitt Burns from 1989 to 1999. He then served from 1999 to 2005 as the founding president and CEO of the Canada Pension Plan Investment Board.

He holds a BA in economics from the University of Western Ontario and holds the corporate director (ICD.D) designation from the Institute of Corporate Directors.

JEAN-RENÉ HALDE
President and Chief Executive Officer
BDC
Montreal, Quebec

Jean-René Halde joined BDC as president and CEO in 2005 and was re-appointed in 2010.

Before joining BDC, Mr. Halde had more than 30 years of management and entrepreneurial experience, holding CEO positions at leading companies including Métro-Richelieu Inc., Culinar Inc. and Livingston Group Inc. He has also served on the boards of many leading private, public and not-for-profit organizations. He presently serves as vice chairman of the Conference Board of Canada and as director of the Montreal General Hospital Foundation.

He holds an MA in economics from the University of Western Ontario, an MBA from Harvard Business School and the corporate director (ICD.D) designation from the Institute of Corporate Directors.

ERIC BOYKO
President
Stingray Digital Inc.
Montreal, Quebec

Eric Boyko joined the BDC board of directors in 2007. He is the co-founder and president of Stingray Digital Inc., an international company dedicated to digital media. He is also a board member of the Montreal Development Program, the Young Presidents' Organization and the Montreal Economic Institute.

Previously, Mr. Boyko founded and was president of eFundraising.com Corporation. He is also a winner of the Top 40 Under 40 prize for 2006.

A graduate of McGill University, he has a specialization in accounting and became a certified general accountant in 1997.

STAN BRACKEN-HORROCKS
President
SE Bracken-Horrocks Investments Ltd.
Vancouver, British Columbia

Stan Bracken-Horrocks joined the BDC board of directors in 2005 and is currently on the board of the Vancouver Police Foundation.

Mr. Bracken-Horrocks is a retired partner at PricewaterhouseCoopers. A chartered accountant, he began at PricewaterhouseCoopers in 1962 and gained extensive experience with boards of directors of public companies and their audit and finance committees. He is also a past president of the Institute of Chartered Accountants of British Columbia.

SUE FAWCETT
President
Fawcett Financial Inc.
Calgary, Alberta

Sue Fawcett joined the BDC board of directors in 2008. She is president of Fawcett Financial Inc., a private firm that works closely with angel investors and provides strategic advice to early-stage companies. She is also an associate of Independent Review Inc. and advises Canada's prominent investment fund companies on governance issues pertaining to the setting up and running of independent review committees. Ms. Fawcett is on the board of the Alberta Economic Development Authority, which provides recommendations and long-term strategic advice on key economic issues to the premier and cabinet.

Previously, she held the title of vice president and advisor with CIBC Wood Gundy. She served on the boards of the Ottawa-Carleton Economic Development Corporation, the Riverside Hospital Foundation and the Ottawa Ballet.

She received her chartered financial analyst (CFA) designation in 2006 in Singapore and holds a BComm from the University of Calgary. She holds the corporate director (ICD.D) designation from the Institute of Corporate Directors.

BRIAN HAYWARD
President
Aldare Resources
Winnipeg, Manitoba

Brian Hayward joined the BDC board of directors in 2008. He is president of Aldare Resources, a business consultancy that provides strategic advisory and governance services.

From 1991 until 2007, he was CEO of Agricore United, the largest agribusiness in Western Canada. He also has provided leadership to many non-profit organizations, including the Royal Winnipeg Ballet, the Conference Board of Canada and the Arthritis Society. Mr. Hayward serves on public and private company boards, including Glacier Media Inc., Ridley Inc. and Wellington West.

Mr. Hayward holds a master's degree in agricultural economics from McGill University and is a graduate of the Directors College of McMaster University's DeGroote School of Business.

JEAN MARTEL
Partner
Lavery, LLP
Montreal, Quebec

Jean Martel joined the BDC board of directors in 2006 and was re-appointed in 2010. He is a partner at Lavery, a Quebec-based law firm, where he has been practising securities, financial and regulatory law in Montreal since 1999. He serves on the boards of directors of TMX Group Inc., TSX Inc., the TSX Ventures Exchange and the Bourse de Montréal.

From 1995 to 1999, he was chairman and CEO of the Quebec Securities Commission and sat on the Technical Committee of the International Organization of Securities Commissions. From 1988 to 1994, as assistant deputy minister of finance, he had overall responsibility for financial sector policy in the province of Quebec.

PRASHANT PATHAK
Managing Partner
ReichmannHauer Capital Partners
Toronto, Ontario

Prashant Pathak joined the BDC board of directors in 2008 and is a managing partner at ReichmannHauer Capital Partners. He has extensive international experience, having worked in Europe, the Middle East and Southeast Asia.

Previously, he was a partner at McKinsey & Company Inc., and held several management and field operations positions at Halliburton and Schlumberger.

Mr. Pathak holds an MBA with distinction from INSEAD and a BTech degree in electrical engineering from the Indian Institute of Technology (IIT). He also has a diploma in fuzzy logic from IIT and is a member of the Young Presidents' Organization.

RICK PERKINS
Vice President, Business Development and Communications
Nova Scotia Liquor Corporation
Halifax, Nova Scotia

Rick Perkins joined the BDC board of directors in 2008. A marketing, communications and public affairs professional, he is the Nova Scotia Liquor Corporation's vice president, communications and corporate responsibility.

Mr. Perkins was a co-founder of Genoa Management Inc., a Toronto-based capital markets counsel firm. He has worked with Newcourt Credit Group Inc., the Canadian Imperial Bank of Commerce, and the Government of Canada's departments of finance and foreign affairs.

Mr. Perkins holds an MBA from the Sobey School of Business, Saint Mary's University, and has been inducted into the latter's Hall of Academic Excellence.

SARAH RAISS
Senior Executive
TransCanada Corporation
Calgary, Alberta

Sarah Raiss joined the BDC board of directors in 2008. She is currently a senior executive with TransCanada Corporation in Calgary. She sits on the board of Shoppers Drug Mart and on the board of Commercial Metals Corporation, a large publicly traded U.S. company, and is first vice president of the board of governors of the Calgary Petroleum Club.

Ms. Raiss was president of S.E. Raiss Group Inc., a consulting firm specializing in strategy, culture change and merger integration.

She has a BSc in applied mathematics, an MBA from the University of Michigan and holds the corporate director (ICD.D) designation from the Institute of Corporate Directors.

THOMAS R. SPENCER
Toronto, Ontario

Thomas R. Spencer joined the BDC board of directors in 2008. He sits on the boards of the Data Group Income Fund and Kruger Inc. He is also a member of the TD Private Equity Investors Advisory Committee.

He is retired from TD Bank Financial Group, where he held various positions, including vice president, corporate and investment banking; vice president, merchant banking services; senior vice president, risk management policy group; executive vice president, risk management; and vice chair of risk management.

Mr. Spencer holds an MBA, a BA in economics from York University and holds the corporate director (ICD.D) designation from the Institute of Corporate Directors.

ROSEMARY ZIGROSSI
Toronto, Ontario

Rosemary Zigrossi joined the BDC board of directors in April 2008 and is currently a director with Promontory Financial Group.

Previously, she was with the Ontario Teachers' Pension Plan, where she held various positions, including vice president, asset mix and risk; vice president, venture capital—a program she initiated; and controller. Prior to that, Ms. Zigrossi was an assistant vice president with J.P. Morgan Bank of Canada and senior auditor with KPMG. She has held directorship roles in a number of start-up companies.

Ms. Zigrossi is a chartered accountant and a chartered financial analyst. She holds a BComm from the University of Toronto, has completed the Harvard Business School management development program and holds the corporate director (ICD.D) designation from the Institute of Corporate Directors.

SENIOR MANAGEMENT TEAM

March 31, 2011

From left to right

JÉRÔME NYCZ

Senior Vice President, Strategy and Corporate Development and (Interim) Executive Vice President, Investments

Jérôme Nycz joined BDC in 2002. He is responsible for strategic planning, enterprise risk management and knowledge management. He is also responsible for the venture capital strategic review, and venture capital operations.

Previously, Mr. Nycz worked in the federal government, notably as senior economist and policy advisor at the Department of Finance, Industry Canada and National Defence. He has also worked at Export Development Canada and as an investment officer at the Canadian Consulate in Boston. He is a member of the board of CIRANO and the advisory board for International Competitiveness of the Desautels Faculty of Management of McGill University.

He holds an IMBA from Hartford University.

EDMÉE METIVIER

Executive Vice President, Financing and Consulting

Edmée Métivier joined BDC in 2000. She is responsible for developing and implementing strategies to sustain the growth of BDC Financing, BDC Consulting and Aboriginal Banking, and oversees credit risk management.

Previously, Ms. Métivier was with the Royal Bank, where she held a number of operational positions, including vice president, small and medium-sized enterprises. She is a member of the Desautels Faculty of Management advisory board at McGill University, the McGill International Executive Institute advisory board, the Canadian Youth Business Foundation, and the Fondation de l'Institut de recherches cliniques de Montréal (IRCM).

She holds an MA in practising management from the University of Lancaster in England.

PAUL BURON

Executive Vice President and Chief Financial Officer

Paul Buron joined BDC in 2006. He is responsible for finance, information technology, treasury and securitization.

Mr. Buron has acquired broad experience through leadership roles in major corporations such as Société générale de financement du Québec, Donohue Inc. and the TVA Group Inc., where he was senior vice president and chief financial officer.

He holds a BBA from HEC Montréal and is a member of the Ordre des comptables agréés du Québec.

JEAN-RENÉ HALDE
President and Chief Executive Officer

Jean-René Halde joined BDC as president and CEO in June 2005 [illegible] 2010

[illegible]

[illegible]

MICHEL BERGERON
Vice President, Corporate Relations

Michel Bergeron joined BDC in 1999. He is responsible for strategic alliances, government relations, media relations, internal and external communications, and BDC's web strategy and branding

At BDC, Mr. Bergeron has held various field positions providing financing solutions to small and medium-sized enterprises, as well as various corporate positions [illegible] Mr. Bergeron was an international trade economist in the federal government and participated in [illegible]teral and multilateral trade [illegible]

[illegible]

LOUISE PARADIS
Senior Vice President, Legal Affairs and Corporate Secretary

Louise Paradis re-joined BDC in 2004. She provides legal support to all business units, as well as the board of directors, and is responsible for developing and implementing strategies on records management

Previously, Ms. Paradis was responsible for legal affairs, human resources, the corporate secretariat and administration at the Canadian office of Société Générale, and she was director [illegible] operations at Société Générale [illegible] two years. She began her career at BDC as legal counsel. She [illegible] member of the board of ProM[illegible]

[illegible]

MARY KARAMANOS
Senior Vice President, Human Resources

Mary Karamanos joined BD[illegible] in 2002. She is responsible [illegible] developing and imp[illegible] BDC's human resources strate[illegible]

Ms. Karam[illegible] than 20 years [illegible] strategic human res[illegible] has held senior p[illegible] Corby Distille[illegible] [illegible] Wine U.S.A. Inc. She [illegible]

[illegible]

FIVE-YEAR OPERATIONAL AND FINANCIAL SUMMARY

for the years ended March 31 ($ in thousands)

Operational statistics	2011	2010	2009	2008	2007
BDC Financing					
Committed to clients					
as at March 31					
Amount	**15,913,193**	14,783,510	12,176,290	10,951,760	10,115,995
Number of clients	**27,989**	28,331	27,617	27,418	26,643
Acceptances					
Amount	**3,244,713**	4,343,068	2,831,534	2,906,667	2,691,571
Number	**9,795**	8,014	7,749	9,143	9,394
BDC Subordinate Financing					
Committed to clients					
as at March 31					
Amount	**278,076**	211,086	176,568	171,991	168,725
Number of clients	**352**	346	351	341	316
Acceptances					
Amount	**105,126**	66,653	46,344	48,660	58,407
Number	**97**	68	92	107	130
BDC Venture Capital*					
Committed to clients					
as at March 31					
Amount	**725,210**	734,932	804,665	749,107	747,857
Number of clients	**103**	118	159	173	192
Authorizations					
Amount	**95,292**	84,591	137,385	130,484	150,733
Number	**45**	43	55	87	71
BDC Consulting					
Number of mandates	**2,300**	2,504	2,720	2,770	2,451
BDC Securitization					
Committed to clients as at March 31 (amount)	**3,193,441**	3,575,327	–	–	–
Amount authorized	**150,000**	3,653,740	–	–	–

Amount committed to clients represents portfolio outstanding and amount undisbursed, at cost.

* For BDC Venture Capital commitment to clients, please see Note 8 (Page 80) and Note 23 (Page 104) to the Consolidated Financial Statments.

($ in thousands)

Financial information	2011	2010	2009	2008	2007
Statement of Income and Comprehensive Income for the years ended March 31					
Financing	**294,419**	76,232	194,028	160,878	167,992
Subordinate Financing	**11,106**	10,214	6,760	11,007	7,945
Venture Capital	**(18,599)**	(74,137)	(106,291)	(82,801)	(33,604)
Consulting	**(10,378)**	(4,645)	(2,930)	(4,521)	(4,326)
Securitization	**70,165**	(1,605)	(1,000)	–	–
Net income	**346,713**	6,059	90,567	84,563	138,007
Other comprehensive income (loss)	**23,604**	5,710	(2,249)	(301)	–
Comprehensive income	**370,317**	11,769	89,318	84,262	138,007
Balance Sheet information as at March 31					
Asset-backed securities	**3,065,589**	3,274,974	–	–	–
Loans, net of allowance for credit losses	**13,731,011**	12,525,521	10,452,173	9,481,449	8,622,646
Subordinate financing investments	**250,375**	193,203	155,070	156,158	148,290
Venture capital investments	**407,793**	362,270	441,631	475,985	505,118
Total assets	**18,400,068**	17,679,927	12,090,911	11,423,566	10,804,081
Total liabilities	**14,391,747**	14,036,911	9,901,347	9,556,249	8,996,363
Total shareholder's equity	**4,008,321**	3,643,016	2,189,564	1,867,317	1,807,718

GLOSSARY

ACCEPTANCE
The point at which the client has accepted the authorized financing terms and conditions that BDC has offered him or her. Client acceptance follows BDC authorization. (Information on acceptances disclosed in this report is net of cancellations or reductions, after client acceptance.)

ALLOWANCE FOR CREDIT LOSSES
Represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general, and is recorded on the balance sheet as a deduction from loans.

ASSET-BACKED SECURITIES
Securities created through the securitization of a pool of assets. For example, BDC's securitization contains Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floorplan loans.

AUTHORIZATION
The point at which BDC has completed its due diligence and approved the client's request for financing. Authorization precedes the client's acceptance of the offered loan. (Information on authorizations disclosed in this report is net of cancellations or reductions, after BDC approval.)

CHANGE IN UNREALIZED APPRECIATION AND DEPRECIATION OF INVESTMENTS
Amount included in income resulting from movements in the fair value of investments for the period.

CONSULTING REVENUE
Fees from services provided by BDC's national network of consultants to assess, plan and implement results-driven, cost-effective management solutions.

CROSS-CURRENCY SWAPS
Agreements to exchange payments in different currencies over pre-determined periods of time.

DEBT-TO-EQUITY RATIO
A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the total shareholder's equity. It excludes accumulated other comprehensive income or loss. The statutory limit of BDC's debt-to-equity ratio is 12:1.

DERIVATIVE FINANCIAL INSTRUMENTS
Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

DIRECT INVESTMENTS
Investments BDC makes directly in investee companies.

EFFICIENCY RATIO
A measure of the efficiency with which BDC incurs expenses to generate income on its financing and subordinate financing operations. It is calculated as operating and administrative expenses, as a percentage of net interest and other income. Other income includes fee income and realized gains or losses on financial instruments from financing, and realized gains or losses on investments and other income from subordinate financing. A lower ratio indicates improved efficiency.

FAIR VALUE
The price that knowledgeable, willing parties—under no compulsion to act—would agree to in an arm's-length transaction. Fair value represents management's best estimate of the net worth of an investment at the balance sheet date and may not reflect the ultimate realizable value upon disposal of the investment.

GENERAL ALLOWANCE
Established by management to recognize credit losses in the existing performing loan portfolio that have occurred as at the balance sheet date but have not yet been specifically identified on an individual loan basis.

HEDGING
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

IMPAIRED LOANS
Loans where, in management's opinion, credit quality has deteriorated so much that there is no longer reasonable assurance that BDC can collect the full amount of principal and interest on time.

INTEREST RATE SWAPS
Agreements to exchange streams of interest payments—typically, one at a floating rate and the other at a fixed rate—over a specified period, based on notional principal amounts.

LOSS ON INITIAL RECOGNITION
Represents the difference between the fair value of a financial instrument and its cost at the time of purchase. Loss on initial recognition is recognized in net income at time of purchase and subsequently amortized through interest income over the life of the financial instrument using the effective interest rate method.

MASTER NETTING AGREEMENT
A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts related to sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

NET INTEREST INCOME
The difference between interest revenues generated by interest-bearing portfolios, as well as cash equivalents and securities; and the cost of borrowings to fund these assets.

PERFORMING PORTFOLIO
Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

PROVISION FOR CREDIT LOSSES
A charge to income that represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

REALIZED GAINS OR LOSSES ON FINANCIAL INSTRUMENTS
Amounts that are related to structured notes and their associated derivatives. Realized gains or losses occur when financial instruments are repurchased prior to maturity at a price higher or lower than the original purchase price.

REALIZED NET GAINS AND LOSSES ON INVESTMENTS
Gains realized, net of realized capital losses, upon sale or write-off of investments, excluding the change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

RETURN ON COMMON EQUITY (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss, and accumulated other comprehensive income or loss.

SPECIFIC ALLOWANCE
An allowance that management establishes to recognize credit losses in the existing loan portfolios that have occurred and are identified on an individual loan basis, as at the balance sheet date.

START-UP
A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

SUBORDINATE FINANCING
A hybrid instrument that brings together some features of both debt financing and equity financing.

UNREALIZED GAINS OR LOSSES ON FINANCIAL INSTRUMENTS
Amounts that are related to structured notes and their associated derivatives. These represent the amount included in income resulting from movements in the fair value of financial instruments for the period.

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